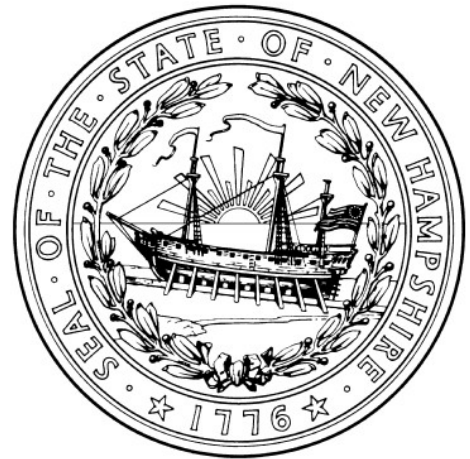


State of New Hampshire



**COMPREHENSIVE ANNUAL
FINANCIAL REPORT
FOR THE FISCAL YEAR
ENDED JUNE 30, 2005**



**PREPARED BY:
DEPARTMENT OF
ADMINISTRATIVE
SERVICES**

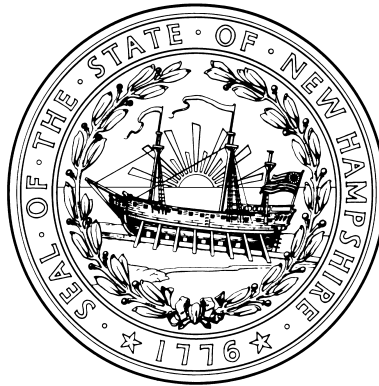
Front Cover Photo taken by and provided courtesy of Frank Harris. The photo was taken in Bristol, NH off West Shore Road near Wellington State Beach on Newfound Lake.

Frank N. Harris
(603) 682-6887
fhphotos@earthlink.net

STATE OF NEW HAMPSHIRE

**COMPREHENSIVE
ANNUAL
FINANCIAL REPORT**

For the Fiscal Year Ended
June 30, 2005



Prepared by the Department of Administrative Services

Donald S. Hill, Commissioner

Sheri L. Rockburn, Comptroller

Stephen C. Smith, Director

Diana L. Smestad

Mark S. Stone

Division of Accounting Services

This document and related information can be accessed at <http://admin.state.nh.us/accounting>



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STATE OF NEW HAMPSHIRE

OFFICE OF THE GOVERNOR



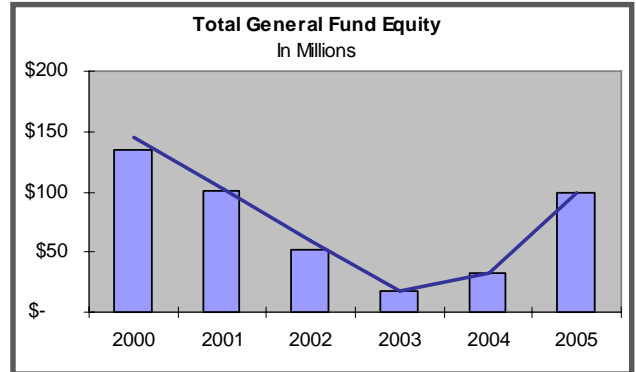
TO: The Citizens of the State of New Hampshire
and the Honorable Members of the Legislature

I am pleased to accept the *Fiscal Year 2005 State of New Hampshire Comprehensive Annual Financial Report*.

We live in the greatest state in the greatest country in the world. I am committed to continuing to work with all the people of New Hampshire to keep it that way. In the past year, we've come together in Concord – Democrats and Republicans – to put aside partisanship and focus on getting good results for the people of New Hampshire. Together, we have conducted the state's business effectively and efficiently, turning last year's deficit into a surplus, passing a balanced budget that meets the needs of New Hampshire's people, and providing urgent relief to communities and citizens hard hit by sudden economic and natural disasters.

During the past year, we made significant progress on issues important to New Hampshire and its citizens:

- We balanced the FY06-FY07 biennial budget without smoke and mirrors and without new taxes, returning our state to a sound financial footing.
- We accumulated a modest surplus for FY05 and are pursuing legislation to put a significant portion of that surplus in the state's Rainy Day Fund to promote our future fiscal stability.



- We worked with New Hampshire's congressional delegation, local communities, and thousands of individual citizens to save the Portsmouth Naval Shipyard.
- We stabilized our small business health insurance market by repealing a law that allowed insurance companies to discriminate against sick workers.
- We increased the state's investment in the Healthy Kids Children's Health Insurance Program to make it possible for more of our youngsters to have health insurance.
- We established the Citizen's Health Initiative, bringing lawmakers, state officials, health care experts, business owners, workers, and insurance experts together for the first time to find effective ways for New Hampshire to improve the state's health care quality and control its health care costs.
- We improved the state's education funding system, sending more aid to the communities that need it most and eliminating the divisive system of property tax donor towns.
- We took action to preserve and protect the natural resources and beauty that make New Hampshire such a great place to live and work, fully funding New Hampshire's Source Water Protection Program, hiring a state energy manager to help reduce state government energy consumption and pollution emission, and putting a moratorium on construction and demolition debris burning throughout the state.

I am very proud of all we have accomplished in the past year. I would like to take this opportunity to thank you for your support, and to thank our great state employees for all their hard work and dedication. Without their efforts, and without the support and involvement of people from across New Hampshire, much of the progress we have made would not have been possible.

Sincerely,

A handwritten signature of John H. Lynch in black ink.

John H. Lynch
Governor



State of New Hampshire
Selected State Officials
For the Fiscal Year Ended June 30, 2005

Executive Branch

Governor John H. Lynch

Executive Council

Raymond S. Burton, District 1

Peter J. Spaulding, District 2

Ruth L. Griffin, District 3

Raymond J. Wieczorek, District 4

Debora B. Pignatelli, District 5

Attorney General

Kelly A. Ayotte

Commissioner of Administrative Services

Donald S. Hill

Treasurer

Michael A. Ablowich

Secretary of State

William M. Gardner

Judicial Branch

Chief Justice of the Supreme Court

John T. Broderick Jr.

Legislative Branch

President of the Senate

Thomas R. Eaton

24 Senators

Speaker of the House of Representatives

W. Douglas Scamman Jr.

400 Representatives

STATE OF NEW HAMPSHIRE

ORGANIZATION CHART



LEGISLATIVE

Senate
House of Representatives
Legislative Services
Legislative Budget Assistant

EXECUTIVE

Governor
and
Council

JUDICIAL

Supreme Court
Superior Court
District Court
Municipal Court
Probate Court

STATE AGENCIES AND COMPONENT UNITS (*)

GENERAL GOVERNMENT

Administrative Services
Cultural Resources
Executive Office
NH Retirement System*
Revenue Administration
Secretary of State
State Treasury

ADMINISTRATION OF JUSTICE AND PUBLIC PROTECTION

Adjutant General
Agriculture, Markets & Food
Banking
Corrections
Employment Security
Highway Safety
Insurance
Justice
Labor
Liquor Commission
Pari-Mutuel Commission
Public Deposit Investment Pool
Public Utilities Commission
Safety

RESOURCE PROTECTION AND DEVELOPMENT

Business Finance Authority*
Environmental Services
Fish and Game
Community Development Finance
Authority*
Pease Development Authority*
Resources and Economic Development

TRANSPORTATION

Transportation

HEALTH AND SOCIAL SERVICES

Health and Human Services
Veterans' Council
Veterans' Home

EDUCATION

Education
Postsecondary Education Commission
NH Community Technical College
System
Lottery Commission
University System of
New Hampshire*



State of New Hampshire
DEPARTMENT OF ADMINISTRATIVE SERVICES
OFFICE OF THE COMMISSIONER
25 Capitol Street - Room 120
Concord, New Hampshire 03301

DONALD S. HILL
Commissioner
(603) 271-3201

March, 21, 2006

To: The Citizens of New Hampshire,
His Excellency the Governor
and the Honorable Council

In accordance with the Revised Statutes Annotated (RSA) 21-I:8,I,(h), it is a pleasure to submit the Comprehensive Annual Financial Report (CAFR), covering the fiscal year ended June 30, 2005. This report has been prepared by the state Department of Administrative Services and responsibility for both the accuracy of the data presented and completeness and fairness of the presentation, including all disclosures, rests with the state. The basic financial statements, considered by management to present fairly and consistently the state's financial position and results of operations, have been prepared in accordance with generally accepted accounting principles (GAAP) applicable to state and local governments, as promulgated by the Governmental Accounting Standards Board (GASB).

The CAFR is presented in three major sections:

- The Introductory Section includes this transmittal letter, the state's organization chart, and summary financial information.
- The Financial Section includes the independent auditors' report, management's discussion and analysis (MD&A), government-wide financial statements, fund financial statements for governmental funds, proprietary funds, fiduciary funds together with notes to the basic financial statements, required supplementary information and combining financial statements.
- The Statistical Section contains selected financial, demographic, and economic data.

GASB Statement No. 34 requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of MD&A. This letter of transmittal is intended to complement MD&A and should be read in conjunction with it. The MD&A can be found immediately following the independent auditors' report.

The financial reporting entity includes all funds of the state as legally defined, as well as all of its component units, except for the NH Retirement System. Component units are legally separate entities for which the state is financially accountable. Note 1 to the Basic Financial Statements provides a more complete description of the state's reporting entity. The state provides a full range of services including: the construction and maintenance of highways and infrastructure, education, health and social services, public safety, conservation of natural resources, economic development, and recreation facilities and development.

New Hampshire's Economic Outlook

New Hampshire's economy has had a steady recovery since the last recession. The state continues to experience the strongest growth in population and employment in New England. Per capita income levels are rising and poverty rates remain the lowest in the nation. New Hampshire is 1st in the nation for median household income. The state has retained its advantages over other states in the region with low unemployment, low tax burdens, highly educated and skilled workforce, and a small and accessible government.

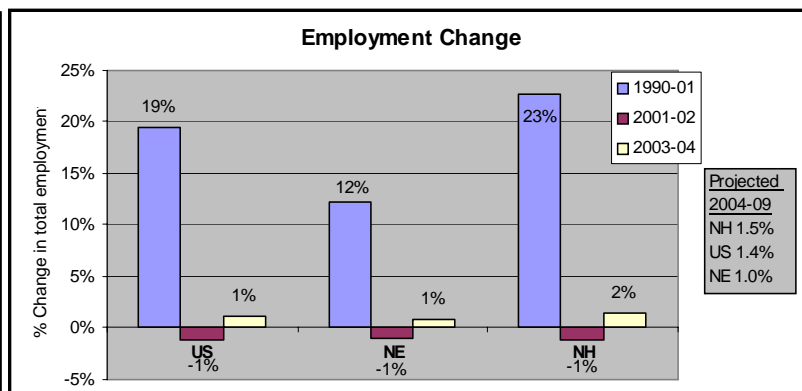
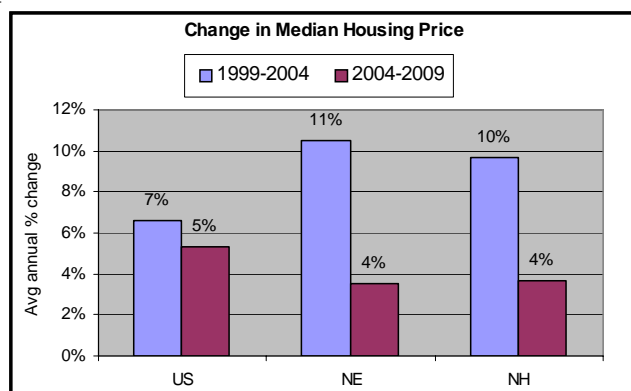
New Hampshire has continued to receive high quality of life rankings in Morgan Quitno's Most Livable State Awards, ranking first in standard of living, family well being, and the most livable state. New Hampshire has also been named the 2nd best state to work in by the Work Environment Index developed by researchers at Political Economy Research Institute at the University of Massachusetts.

<i>New Hampshire's Economic Scoreboard for 2005</i>		
<i>Categories</i>	<i>NH's National Rank</i>	<i>NH's Rank in New England</i>
Favorable Tax Climate	1st	1st
Healthiest State (Morgan Quitno, 2005)	2nd	2nd
Standard of Living (by Poverty Rate)	1st	1st
Child and Family Well-Being (Annie E. Casey, 2005)	1st	1st
Safest State (Morgan Quitno, 2004)	1st	1st
Most Livable State (Morgan Quitno, 2005)	1st	1st
College Educated Population	4th	2nd

Source: Dennis Delay, Workforce Opportunity Council, Inc

New Hampshire's employment has expanded since the 2001 recession. During the recession, the state lost approximately 20,000 jobs, or slightly above 3.0% of total non-farm employment. Those losses were completely recovered by 2005 and moderate growth is projected, although not at levels seen during the "tech boom" in the 90's. The considerable losses in manufacturing and high tech workforce have stabilized and are beginning to show improvement. The announcement by the Base Realignment and Closure Commission removing the Portsmouth Naval Shipyard from the list of recommended closures is extremely good news for the state's employment picture and overall economy. The Shipyard brings over 5,000 jobs to the Seacoast. As of the date of this report, New Hampshire's unemployment rate was 3.3%, which continues to track lower than New England (4.4%) and the national average (4.7%).

Home prices in New Hampshire have continued to rise rapidly. For the twelve months ended June 2005, house prices in NH rose by 12.4%, slightly below the region (13.0%) and nation (13.4%). Increased demand for housing and historically low mortgage rates, were the primary factors driving the increases. State revenues benefited from the strength in housing as the Real Estate Transfer tax grew 12.0% during 2005, bringing in \$159.8 million in revenue.



Home prices are expected to moderate, but not decline going forward. However, as mortgage rates rise, demand for new housing and refinancing activity may be reduced.

The direct effects from hurricanes Katrina and Rita on New Hampshire's economy were slight, but higher energy costs occasioned by the storms, and the resulting effect on consumer spending and discretionary income have given rise to economic concerns. Costs of energy sources are generally more expensive in NH, as the state has few indigenous energy resources to replace the crude oil and natural gas supplies that were disrupted during the storms. It is estimated that spending on residential energy in NH could be as high as 5% of disposable income. However, even with these increased costs, employment growth is strong, and well above the national average. The quality of life and demographic advantages of New Hampshire will be sustained, bringing long-term advantages to the state.

MAJOR INITIATIVES

Enterprise Resource Planning (ERP)

With a view to replacing the Department of Administrative Services central data processing system, the department issued request for proposals for Enterprise Resource Planning (ERP) acquisition and implementation. The proposals were due in November 2005. As of the date of this report the proposals are being reviewed and vendor selection is anticipated by fiscal year end. The current financial and human resource systems are approximately twenty years old.

The 2005 capital budget included \$19.0 million of appropriations for the ERP project.

E-ZPass

E-ZPass is an electronic toll collection technology that makes traveling more convenient, helps you save money through discount plans offered by many toll facilities, and helps reduce traffic congestion for everyone. Although the project began a few years ago, the State of New Hampshire's Department of Transportation began selling E-ZPass transponders during the end of fiscal 2005 and brought the E-ZPass system on line early in fiscal 2006.

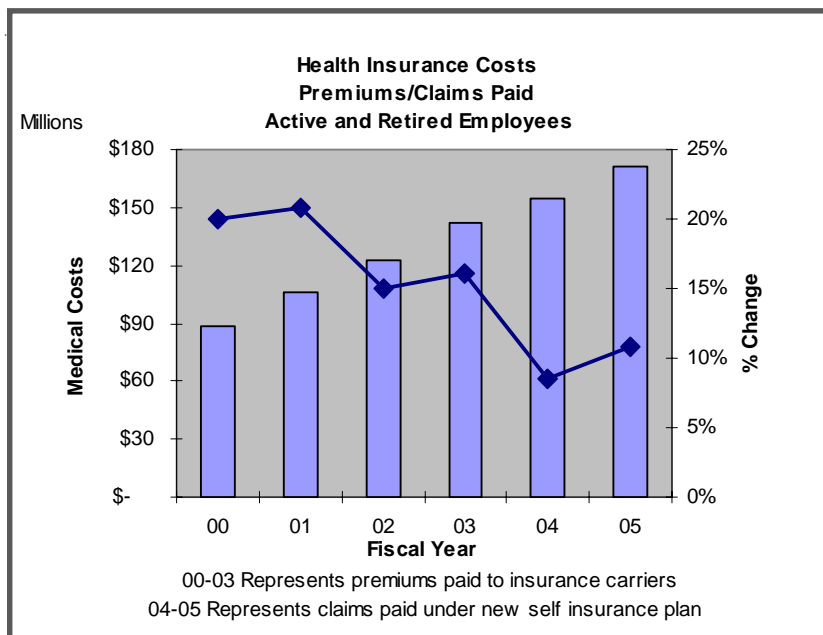
Conventional toll collection methods require you to deposit coins, tickets, and tokens at toll plazas. This challenges highway capacity because the number of vehicles that can be processed at toll plazas is limited. With E-ZPass' electronic toll collection (ETC) technology, account information on an electronic tag installed in the car is read by a receiving antenna at the toll plaza. The toll is electronically deducted from a prepaid toll account. Not only does E-ZPass make toll collection more convenient for citizens and travelers, it helps achieve a number of benefits for everyone.

E-ZPass is accepted anywhere you see:



Employee Benefit Risk Management Fund

Chapter 251, Laws of 2001, authorized the Commissioner of Administrative Services to provide a self-funded alternative to traditional insurance programs for employee benefits to aid in controlling the rise in insurance costs. As a result, a new fund, titled the Employee Benefit Risk Management Fund, was established beginning in October 2003. The fund was created to manage the state's self-insurance program and to pool all resources to pay for the cost associated with providing employee benefits for active state employees and retirees.



Agencies are charged an actuarially determined premium paid into this new fund on a bi-weekly basis and efficiently controlled through the state's payroll system. These premiums are intended to cover the costs of claims presented, stop-loss coverage, administrative fees and reserve requirements. Claims payments by the third party administrator to the providers are reimbursed by the state out of this new fund daily.

The state is currently analyzing the first twenty-one months of activity in this fund. The state has contracted with a consulting firm to assist and provide actuarial, claims audit and general consulting services in order to evaluate the performance of this fund and to determine the best way to control health benefit costs through this arrangement.

At June 30, 2005, the fund ended the year with a surplus of \$2.8 million and cash on hand of \$17.3 million.

FINANCIAL INFORMATION

Surplus Statement General and Education Funds (In Millions)

	FY 2003	FY 2004			FY 2005		
	Total	General	Education	Total	General	Education	Total
Undesignated Fund Balance, July 1	(37.9)	0.0	0.0	0.0	15.3	0.0	15.3
Additions:							
Unrestricted Revenue	2,049.0	1,310.7	848.0	2,158.7	1,391.6	770.3	2,161.9
Transfers of Appropriation from General Fund	83.4		62.6	62.6		61.4	61.4
Total Additions	2,132.4	1,310.7	910.6	2,221.3	1,391.6	831.7	2,223.3
Deductions:							
Appropriations Net of Estimated Revenues	(2,169.2)	(1,362.3)	(895.0)	(2,257.3)	(1,409.2)	(793.0)	(2,202.2)
Less Lapses	16.0	34.5		34.5	58.0	(19.0)	39.0
Total Net Appropriations	(2,153.2)	(1,327.8)	(895.0)	(2,222.8)	(1,351.2)	(812.0)	(2,163.2)
GAAP and Other Adjustments	(17.8)	1.5	(7.7)	(6.2)	4.0	2.8	6.8
Other One-Time Revenue Adjustments							
DHHS Enhancement Revenue	4.7	19.2		19.2			-
Other Revenue Adjustments		3.8		3.8			-
Current Year Balance	(33.9)	7.4	7.9	15.3	44.4	22.5	66.9
Fund Balance Transfers (To)/From:							
Rainy Day Fund	37.9						
Health Care Fund	33.9						
Education Trust Fund		7.9	(7.9)		22.5	(22.5)	
Undesignated Fund Balance, June 30,	0.0	15.3	0.0	15.3	82.2	0.0	82.2
Reserved for Rainy Day Account	17.3	17.3		17.3	17.3		17.3
Total Equity	17.3	32.6	0.0	32.6	99.5	(0.0)	99.5

In order to balance the fiscal 2006-07 biennial budget, the legislature anticipated a surplus of \$30.5 million for fiscal 2005. However, the actual combined General and Education Fund surplus at June 30, 2005 was \$82.2 million, \$51.7 million higher than expected. The favorable surplus was primarily the result of continued growth in the real estate market, increases in revenue from business taxes, one time business audit settlements, and greater than expected lapses. In accordance with Chapter 177:122, Laws of 2005, the biennial transfer of surplus from the General Fund to the Revenue Stabilization Account was suspended.

General and Education Fund unrestricted revenue for fiscal year 2005 totaled \$2,161.9 million, which was \$160.4 million (8.0%) over plan and \$3.2 million over the prior year. More than half of the increase was from 2 major revenue sources, the real estate transfer tax and business taxes. In addition to increases in taxes collected from the business profits and business enterprise tax, the state recognized \$33.5 million in one-time audit settlements at the end of the year.

Net appropriations, including anticipated budget reductions and savings from budget initiatives, for the General Fund were \$1,409.2 million, which was a minimal increase of \$46.9 million (3.4%) from the prior year. As a comparison, the net appropriations from fiscal 2003 to 2004 increased 7.8%. In contrast, the net appropriations for the Education Fund were \$793.0 million, a decrease of \$102.0 million (11.4%) as a result of changes to the education funding laws.

Lapses for fiscal 2005, for the General Fund, were \$58.0 million as compared to \$34.5 million for fiscal 2004. Although lapses from salary and benefits were similar year to year, increases over fiscal 2004 were seen in several program areas, including the Department of Health and Human Services (\$6.9 million), the Liquor Commission (\$1.8 for not completing the Nashua liquor store), and savings for retirees health insurance (\$6.3 million) from effective cost containment measures.

Summary of General and Education Funds Unrestricted Revenue
GAAP Basis (In Millions)

Revenue Category	FY 2003	FY 2004			FY 2005			FY 2005 Combined
		General	Education	Total	General	Education	Total	Plan
Business Profits Tax.....	\$ 174.8	\$ 131.6	\$ 41.0	\$ 172.6	\$ 196.6	\$ 50.7	\$ 247.3	\$ 234.9
Business Enterprise Tax.....	218.0	118.5	116.9	235.4	114.1	130.6	244.7	180.1
Subtotal.....	392.8	250.1	157.9	408.0	310.7	181.3	492.0	415.0
Meals & Rooms Tax.....	175.4	178.5	6.9	185.4	186.5	7.1	193.6	191.2
Tobacco Tax.....	94.1	71.5	28.6	100.1	73.3	28.2	101.5	94.9
Liquor Sales and Distribution.....	99.0	106.7		106.7	112.6		112.6	114.5
Interest & Dividends Tax.....	55.1	55.6		55.6	67.9		67.9	64.0
Insurance Tax.....	82.2	86.2		86.2	88.7		88.7	85.6
Communications Tax.....	62.4	65.8		65.8	70.0		70.0	69.0
Real Estate Transfer Tax.....	118.2	95.2	47.5	142.7	107.8	52.0	159.8	123.5
Estate and Legacy Tax.....	59.1	27.0		27.0	11.7		11.7	11.4
Transfers from Lottery Commission.....	66.6	-	73.7	73.7		70.3	70.3	71.0
Tobacco Settlement.....	45.9	1.8	40.0	41.8	2.4	40.0	42.4	39.6
Utility Property Tax.....	18.8	-	20.2	20.2		20.1	20.1	20.5
Property Tax Not Retained Locally.....	32.7		29.8	29.8		20.9	20.9	22.4
Property Tax Retained Locally.....	453.0		443.4	443.4		350.4	350.4	351.1
Other.....	160.1	167.0		167.0	150.7		150.7	142.6
Subtotal.....	1,915.4	1,105.4	848.0	1,953.4	1,182.3	770.3	1,952.6	1,816.3
Net Medicaid Enhancement								
Revenues.....	117.0	149.8		149.8	147.2		147.2	146.6
Recoveries.....		20.4		20.4	23.0		23.0	15.8
Subtotal.....	2,032.4	1,275.6	848.0	2,123.6	1,352.5	770.3	2,122.8	1,978.7
Other Medicaid Enhancement								
Revenues to Fund Net Appropriations..	16.6	35.1		35.1	39.1		39.1	22.8
Total.....	\$ 2,049.0	\$ 1,310.7	\$ 848.0	\$ 2,158.7	\$ 1,391.6	\$ 770.3	\$ 2,161.9	\$ 2,001.5

Consistent with recent growth in the economy, revenue collections came in significantly higher than original estimates. Fiscal 2005 unrestricted revenue for the General and Education funds totaled \$2,161.9 million, which exceeded the plan by \$160.4 million. This strong fiscal year performance was seen primarily from Business Taxes and Real Estate Transfer Taxes.

- **Business Taxes** totaled \$492.0 million, \$77.0 million above plan and \$84.0 million over prior year. Included in the fiscal year 2005 revenue was approximately \$33.5 million of one-time audit settlements.
- As the result of rising home prices, continued sales activity spurred by low interest rates, and audits, the **Real Estate Transfer Tax** collections totaled \$159.8 million, \$36.3 million (29.4%) above plan and \$17.1 million (12.0%) over prior year.

When comparing fiscal 2005 results to 2004, total unrestricted revenue for the General and Education funds were slightly ahead by \$3.2 million. Shortfalls in the statewide property tax, estate and legacy tax, and the flexible grant, offset the growth in Business taxes and Real Estate Transfer tax. The **Statewide Property Tax** declined in revenue by \$101.9 million as a result of rate changes from \$4.92 to \$3.33 per thousand. The **Estate & Legacy Tax** collections were \$15.3 million less than prior year due to the phase out of the tax, combined with large one-time gains received last fiscal year. Lastly, during FY2004 the State received the second of two \$25 million **Flexible Grant** payments relating to the Federal Jobs and Growth Reconciliation Act of 2003. The grant payments were applicable to fiscal years 2003 and 2004 and were not a recurring source of revenue.

Budgetary Process

The state budget is prepared on a biennial basis. Prior to the start of each biennium, all departments of the state are required by law to transmit to the commissioner of the Department of Administrative Services requests for capital and operating expenses and estimates for revenue for the ensuing biennium. Following public hearings and consultation with various department heads, the Governor prepares a recommended budget. The budget is forwarded to the Legislature by February 15th of the odd year for consideration. The Legislature performs its review of the proposed budget and can make further adjustments. The budget passed by the Legislature is forwarded to the Governor to be enacted into law or to be vetoed.

The legal level of budgetary control is at the department level. All departments are authorized to transfer appropriations within their departments with prior approval from the Legislative Fiscal Committee and the Executive Council.

Internal Controls

Major fiscal responsibilities within the state are segregated among the following officials:

- *Department of Administrative Services* - The commissioner of Administrative Services, the assistant commissioner/budget officer and the comptroller are responsible for enforcing financial policy guidelines, developing the executive budget, collecting financial data from individual agencies, developing and reviewing appropriation control procedures, and compiling agency financial information.
- *Legislative Budget Assistant (LBA)* - The LBA, appointed by the Fiscal Committee, is responsible for ensuring that an annual audit is conducted of the state's basic financial statements prepared by the Department of Administrative Services. The LBA also provides staff assistance to the finance committees of the state Legislature. The LBA Audit Division performs various financial, compliance, and performance audits of state agencies.
- *State Treasurer* - The state treasurer, elected by the Legislature, is responsible for executing policy for the management of the state treasury and depositing and investing state funds as well as the issuing of general obligation and revenue bonds.
- *State Agencies* - Agency commissioners and directors are responsible for administering their agencies, in accordance with legislative and executive directives, to effectively service the citizens of the state.

Financial transactions for the various state agencies are recorded in the New Hampshire Integrated Financial System (NHIFS). The state's centralized accounting system and other accounting procedures were designed to provide various controls to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use and the proper recording of financial transactions. The Department of Administrative Services prepared the Internal Controls Tool Kit to further educate agency personnel in the importance of maintaining an effective internal control structure.

Cash and Investments

Cash deposits into the state treasury are coordinated jointly by the state treasurer and the state agencies. Cash is managed in pooled investment funds in order to maximize interest earnings. Investments are made in accordance with state statutes and treasury's investment policy. Cash is primarily invested in money market accounts, repurchase agreements, certificates of deposit and United States Treasury and agency obligations. For the fiscal year ended June 30, 2005, the average daily balance of all pooled investment funds was estimated at \$334.0 million, with an average yield of 2.4%. Total investment income was \$8.0 million for the year.

Insurance

Historically, the state has assumed the risk for fire, property, and general liability purposes, except where the provisions of law allow for the purchase of commercial insurance or where commercial insurance has been proven beneficial to the general public. Commercial insurance is purchased by the state to cover such things as fleet automobile, watercraft and aircraft liability, ski area operations to protect the state from liabilities resulting from the state run facility, and a faithful performance position schedule bond to protect against dishonest acts of employees. Effective May 1, 2000, commercial insurance was purchased to cover state owned buildings in the event of a catastrophic loss.

Prior to July 1985, the state relied on the doctrine of sovereign immunity. Subsequently, legislation became effective creating the statute "Claims Against the State" in which sovereign immunity was waived to certain limits and would allow certain types of actions and claims to be brought against the state. The limits set by the statute are the basis for risk management programs.

OTHER INFORMATION

Audits

Pursuant to RSA 21-I:8,I(h), the Legislative Budget Assistant may designate a certified public accountant not employed in state service to conduct an annual audit, in accordance with Generally Accepted Auditing Standards, of the state's basic financial statements. KPMG LLP, the designated certified public accountant, has performed an independent audit of the state's basic financial statements for the fiscal year ended June 30, 2005.

In order to comply with the Single Audit Act, the Legislative Budget Assistant also contracts for a single audit of the state as a whole, which will include a legal compliance report on all federal funds received by the state. This report (including a Schedule of Expenditures of Federal Awards received by the state and comments on internal accounting controls and compliance with laws, rules and regulations) will be published separately.

Certificate of Achievement

The Government Finance Officers Association of the United States of America and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the state of New Hampshire for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2004. This was the eighth consecutive year that the state received this prestigious award.

In order to be awarded a certificate of achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. The CAFR must satisfy both accounting principles generally accepted in the USA and applicable legal requirements.

A certificate of achievement is valid for a period of one year only.

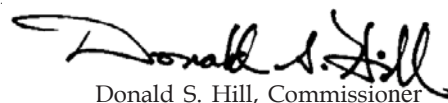
Annual Report to the Citizens

Again in fiscal year 2005, the Department of Administrative Services published the *Annual Report to the Citizens*. That report presents a condensed version of the financial information contained in the CAFR, as well as an overview of state operations and other nonfinancial data. A copy of the report may be obtained from the Department of Administrative Services, 25 Capitol St. Rm 310, Concord NH 03301, or from the department's web site at <http://admin.state.nh.us/accounting>.

Acknowledgements

In submitting this report, I acknowledge the cooperation and assistance of all the state agencies and the dedication of the employees of the Department of Administrative Services.

Respectfully submitted,



Donald S. Hill, Commissioner

*Certificate of Achievement
For Excellence in
Financial Reporting*

Presented to

State of New Hampshire

*For its Comprehensive Annual Financial Report
for the Fiscal Year Ended*

June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Carol E. Prange

President

Jeffrey L. Essler

Executive Director



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Financial Section





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INDEPENDENT AUDITORS' REPORT

To the Fiscal Committee of the General Court
State of New Hampshire
Concord, New Hampshire

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of New Hampshire as of and for the year ended June 30, 2005, which collectively comprise the State of New Hampshire's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of New Hampshire's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of any of the discretely presented component units: the University System of New Hampshire, the Business Finance Authority, the Community Development Finance Authority and Pease Development Authority and we did not audit the financial statements of the Investment Trust Fund which represents 39.8% of the assets of the remaining aggregate Fiduciary Fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to those amounts included for those entities, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State of New Hampshire's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

As discussed in note 1A, the financial statements of the New Hampshire Retirement System (System), a Fiduciary Fund - Pension Trust Fund of the State, have not been presented herein as required by U.S. generally accepted accounting principles.

In our opinion, because of the effects of the matter discussed in the previous paragraph, the financial statements referred to above do not present fairly, in conformity with U.S. generally accepted accounting principles, the financial position of the aggregate remaining fund information of the State of New Hampshire as of June 30, 2005, or the changes in financial position thereof for the year then ended.



To the Fiscal Committee of the General Court
State of New Hampshire

In addition, in our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units and each major fund of the State of New Hampshire as of June 30, 2005, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2006, on our consideration of the State of New Hampshire's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 16 through 22, and the budget to actual - budgetary basis - schedules on pages 71 through 76 are not required parts of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of New Hampshire's basic financial statements. The introductory section, the other supplementary information and the statistical section as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections of this report have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

March 21, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of the financial activities of the State of New Hampshire (the state) for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information included in our letter of transmittal, which can be found at the front of this report and with the state's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS -PRIMARY GOVERNMENT

Government-Wide Highlights:

Net Assets: The total assets of the state exceeded total liabilities at fiscal year ending June 30, 2005 by \$2.6 billion. This amount is presented as "net assets" on the Statement of Net Assets for the Total Primary Government (condensed information can be seen in the MD&A section of this report). Of this amount, \$489.2 million was reported as unrestricted net assets, \$581.1 million was restricted net assets, and \$1.5 billion was invested in capital assets. Unrestricted net assets represent the amount available to be used to meet the state's ongoing obligations to citizens and creditors.

Changes in Net Assets: The state's total net assets increased by \$223.2 million, or 9.5%, in fiscal year 2005. Net assets of governmental activities increased by \$187.8 million (10.4%), and net assets of the business-type activities showed an increase of \$35.4 million (6.4%).

Fund Highlights:

Governmental Funds - Fund Balances: As of the close of fiscal year 2005, the state's governmental funds reported a combined ending fund balance of \$430.5 million, an increase of \$83.7 million in comparison with the prior year. This change is inclusive of a \$1.2 million inventory reserve increase. Included in the combined governmental fund balance is the activity of the state's General Fund. The General Fund ended the year with an unreserved, undesignated surplus of \$82.2 million, and the Rainy Day balance remained the same as prior year at \$17.3 million, in accordance with Chapter 177:122, Laws of 2005.

Long-Term Obligations:

The state's total long-term obligations increased by \$23.9 million (2.5%) during the current fiscal year which represents the net difference between new issuances and payments of outstanding debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the state's basic financial statements. The state's basic financial statements include three components:

1. Government-Wide financial statements,
2. Fund financial statements, and
3. Notes to the financial statements.

This report also contains supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The Government-Wide Financial Statements provide a broad view of the state's finances. These statements (Statement of Net Assets and the Statement of Activities) provide both short-term and long-term information about the state's overall financial position. They are prepared using the accrual basis of accounting, which recognizes all revenues and expenses connected with the fiscal year even if cash has not been received or paid.

The **Statement of Net Assets**, beginning on page 24 presents all of the state's non-fiduciary assets and liabilities. The difference between assets and liabilities is reported as "net assets" instead of fund equity as shown on the Fund Statements. Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the state is improving or deteriorating.

The **Statement of Activities**, beginning on page 26, presents information showing how the state's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and licenses and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the state.

Both of the Government-Wide Financial Statements have separate sections for three different types of state activities. These three types of activities are:

Governmental Activities: The activities in this section represent most of the state's basic services and are generally supported by taxes, grants and intergovernmental revenues. The governmental activities of the state include general government, administration of justice and public protection, resource protection and development, transportation, health and social services, and education.

Business-Type Activities: These activities are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the state include the operations of the:

- Liquor Commission,
- Lottery Commission,
- Turnpike System, and
- New Hampshire Unemployment Compensation Trust Fund.

Discretely Presented Component Units: Component Units are entities that are legally separate from the state, but for which the state is financially accountable. The state's discretely presented component units are presented in the aggregate in these Government-Wide Statements and include the:

- University System of New Hampshire (USNH),
- Business Finance Authority,
- Pease Development Authority, and
- Community Development Finance Authority.

Complete financial statements of the individual component units can be obtained from their respective administrative offices. Addresses and other additional information about the state's component units are presented in the notes to the financial statements.

Fund Financial Statements

A fund is a grouping of related funds that is used to maintain control over resources that have been segregated for specific activities or objectives. The state, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements, focus on the individual parts of the state government, and report the state's operations in more detail than the government-wide statements. The state's funds are divided into 3 categories – governmental, proprietary and fiduciary. For governmental and proprietary funds, only those funds that are considered Major Funds are reported in individual columns in the Fund Financial Statements with combining schedules in the other supplementary information section to support the Non-Major Funds column. Fiduciary funds are reported by fiduciary type (private-purpose, investment trust, and agency) with combining schedules in the Supplementary Section.

Governmental Funds: Most of the basic services provided by the state are financed through governmental funds. Unlike the Government-Wide Financial Statements, the Governmental Fund Financial Statements report using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted into cash. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the state's programs. The basic Governmental Fund Financial Statements can be found on pages 30-33.

Because the focus of governmental funds is narrower than that of the Government-Wide Financial Statements, it is useful to compare the information presented here with similar information presented in the Government-Wide Financial Statements. Reconciliations are provided between the Governmental Fund Statements and the Government-Wide Statements, which can be found on pages 31 and 33.

The state's major governmental funds include the General Fund, Highway Fund, and Education Fund.

Individual fund data for each of the state's non-major governmental funds (Fish and Game Fund, Capital Fund and Permanent Funds) are provided in the combining statements found on pages 82 and 83.

Proprietary Funds: The state's proprietary funds charge a user fee for the goods and services they provide to both the general public and other agencies within the state. These activities are reported in 4 enterprise funds and 1 internal service fund. The enterprise funds, which are all considered major funds, report activities that provide goods and services to the general public and include the operations of the Liquor Commission, Lottery Commission, Turnpike System and the New Hampshire Unemployment Trust Fund. The Internal Service Fund reports health related fringe benefit services for the state's programs and activities.

Like the Government-Wide Financial Statements, Proprietary Fund Financial Statements use the accrual basis of accounting. Therefore there is no reconciliation needed between the Government-Wide Financial Statements for business-type activities

and the Proprietary Fund Financial Statements. The Internal Service Fund is reported within governmental activities on the Government-Wide Financial Statements. The basic proprietary funds financial statements can be found on pages 36-38.

Fiduciary Funds and Similar Component Units: These funds are used to account for resources held for the benefit of parties outside the state government. Fiduciary funds are not reflected in the Government-Wide Financial Statements because the resources of these funds are not available to support the state's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds in that they use the accrual basis of accounting.

The state's fiduciary funds on pages 43-44 include the:

- **Investment Trust Fund** which accounts for the activity of the external investment pool known as PDIP,
- **Private-Purpose Trust Funds** which account for the activity of trust arrangements under which principal and income benefit individuals, private organizations, or other governments, and
- **Agency Funds** which account for the resources held in a pure custodial capacity.

Prior to 2005 the state's fiduciary funds included pension trust funds, which accounted for the activity of the New Hampshire Retirement System - a component unit of the state. This component unit has not been presented in the fiduciary funds due to the ongoing audit of their fiscal 2005 financial statements. The release date of their audited financial statements is unknown as of the date of this report.

Individual fund detail can be found in the combining financial statements in the Other Supplementary Information Section.

Major Component Unit

The state has only one major discretely presented component unit - the University System of New Hampshire and 3 non-major discretely presented component units. This separation is determined by the relative size of the individual entities' assets, liabilities, revenues and expenses in relation to the combined total of all component units. The combining financial statements for the component units can be found on pages 40-41.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements begin on page 46.

Required Supplementary Information

The basic financial statements and accompanying notes are followed by a section of required supplementary information. This section includes a budgetary comparison schedule for each of the state's major governmental funds, and includes a reconciliation between the statutory fund balance for budgetary purposes and the fund balance as presented in the governmental fund financial statements.

Other Supplementary Information

Other supplementary information includes combining financial statements and schedules for governmental, internal service and fiduciary funds and non-major component units.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The state's combined net assets (government and business-type activities) totaled \$2.6 billion at the end of 2005, compared to \$2.4 billion at the end of the previous year.

Investment in Capital Assets: The largest portion of the state's net assets (58.5%) reflects its investment in capital assets such as land, buildings, equipment, and infrastructure (roads and bridges), less any related outstanding debt used to acquire those assets. The states investment in capital assets increased \$41.5 million from prior year. This increase was the result of net additions of capital assets of \$110.2 million during the year combined with a reduction in capital related debt of \$68.7 million. Although the state's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves generally cannot be used to liquidate these liabilities.

Restricted Net Assets: An additional portion of the state's net assets (22.5%) represents resources that are subject to external restrictions on how they may be used. Restricted net assets increased \$36.1 million from prior year due to an increase in water pollution control loans and unemployment compensation benefit reserves during the year.

Unrestricted Net Assets: The state's unrestricted net assets, totaling \$489.2 million, increased \$145.5 million from the previous year, as a result of strong performance from real estate and business taxes combined with tight spending controls. These assets may be used to meet the state's ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net assets. At the end of both the current and prior fiscal years, the state was able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

State of New Hampshire's Net Assets as of June 30, 2005 and 2004						
(In Thousands)						
	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Current assets	\$ 872,227	\$ 847,867	\$ 370,407	\$ 343,895	\$ 1,242,634	\$ 1,191,762
Capital assets	1,956,545	1,856,898	549,022	538,445	2,505,567	2,395,343
Other assets	294,376	278,633	30,976	39,886	325,352	318,519
Total assets	3,123,148	2,983,398	950,405	922,226	4,073,553	3,905,624
Long-term liabilities	697,966	659,204	295,577	310,410	993,543	969,614
Other liabilities	430,343	517,144	69,434	63,302	499,777	580,446
Total liabilities	1,128,309	1,176,348	365,011	373,712	1,493,320	1,550,060
Net assets:						
Invested in capital assets, net of related debt	1,271,863	1,255,739	238,080	212,708	1,509,943	1,468,447
Restricted	262,938	245,194	318,143	299,755	581,081	544,949
Unrestricted	460,038	306,117	29,171	37,568	489,209	343,685
Total net assets	\$ 1,994,839	\$ 1,807,050	\$ 585,394	\$ 550,031	\$ 2,580,233	\$ 2,357,081

Changes in Net Assets

The state's net assets increased by \$223.2 million, or 9.5%, during the current fiscal year. Total revenues increased by \$109.2 million (2.2%) along with decreases in expenses of \$6.7 million (0.1%).

More than half of the state's revenue (61.3%) is from program revenue, consisting of charges for goods and services, and federal and local grants. Revenues not specifically targeted for a specific program are known as general revenues, which are primarily from taxes. The largest revenue increases were from service charges to support health and social service programs primarily related to the nursing facility quality assessment fee, and a combination of growth in several taxes including business, and real estate.

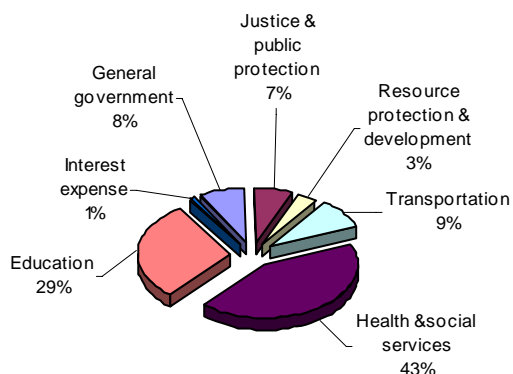
The state's expenses cover a range of services. The largest expenses were for Health and Social Services and Education, which accounted for 37.2% and 25.7% of total expenditures, respectively. As compared to the prior year, Health and Social Services remained relatively flat, growing by 0.4%. However, Education expenses saw a decrease of 6.3% due to reduced Education Grant funding.

Offsetting the decrease in Education expenses was a 25.8% growth in General Government due to funding requirements and health benefits related to retired judges and state employees.

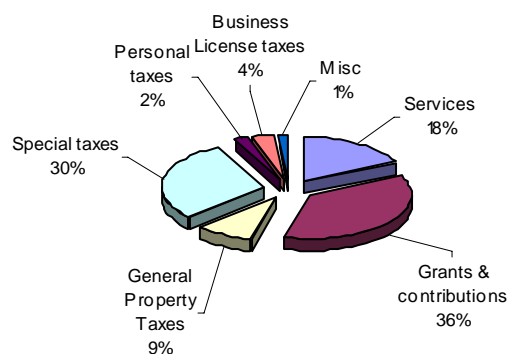
State of New Hampshire's Changes in Net Assets
For Fiscal Years Ending June 30, 2005 and 2004
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues						
Program revenues:						
Charges for services	\$ 742,485	\$ 638,583	\$ 812,185	\$ 802,163	\$ 1,554,670	\$ 1,440,746
Operating grants & contributions	1,359,477	1,369,236			1,359,477	1,369,236
Capital grants & contributions	159,238	159,015	6,373	7,338	165,611	166,353
General revenues:						
General Property Taxes	393,426	494,364			393,426	494,364
Special taxes	1,240,922	1,142,406			1,240,922	1,142,406
Personal taxes	101,360	100,015			101,360	100,015
Business License taxes	154,335	151,744			154,335	151,744
Interest	6,557	5,832			6,557	5,832
Miscellaneous	46,156	42,620			46,156	42,620
Total revenues	<u>4,203,956</u>	<u>4,103,815</u>	<u>818,558</u>	<u>809,501</u>	<u>5,022,514</u>	<u>4,913,316</u>
Expenses						
General government	331,651	263,634			331,651	263,634
Administration of justice and public protection	288,737	278,392			288,737	278,392
Resource protection and development	130,113	124,357			130,113	124,357
Transportation	383,435	380,358			383,435	380,358
Health and social services	1,785,525	1,778,791			1,785,525	1,778,791
Education	1,235,183	1,318,503			1,235,183	1,318,503
Interest Expense	29,467	27,062			29,467	27,062
Turnpike System			58,582	56,816	58,582	56,816
Liquor Commission			313,838	295,798	313,838	295,798
Lottery Commission			160,282	165,532	160,282	165,532
Unemployment Compensation			82,549	116,802	82,549	116,802
Total expenses	<u>4,184,111</u>	<u>4,171,097</u>	<u>615,251</u>	<u>634,948</u>	<u>4,799,362</u>	<u>4,806,045</u>
Increase (decrease) in net assets before transfers	19,845	(67,282)	203,307	174,553	223,152	107,271
Transfers & Other Items	167,944	165,820	(167,944)	(165,820)		-
Increase(decrease) in net assets	187,789	98,538	35,363	8,733	223,152	107,271
Net assets, beginning of year	1,807,050	1,708,512	550,031	541,298	2,357,081	2,249,810
Net assets, end of year	<u>\$ 1,994,839</u>	<u>\$ 1,807,050</u>	<u>\$ 585,394</u>	<u>\$ 550,031</u>	<u>\$ 2,580,233</u>	<u>\$ 2,357,081</u>

Expenses - Governmental Activities
Fiscal Year Ending June 30, 2005



Revenues - Governmental Activities
Fiscal Year Ending June 30, 2005



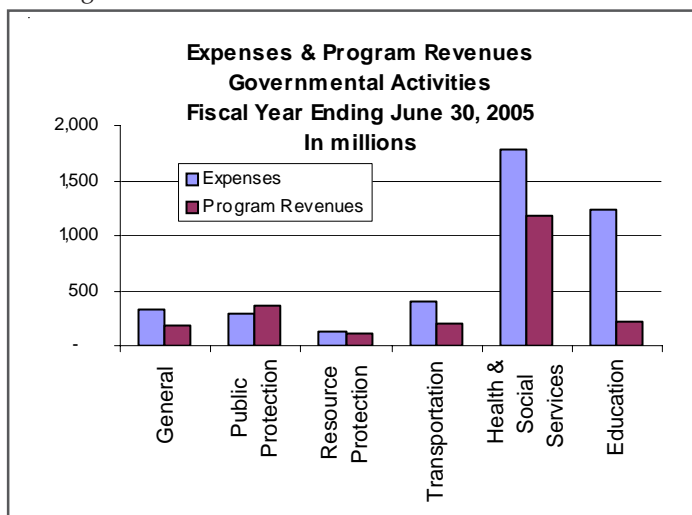
State of New Hampshire
Analysis of Changes in Revenues and Expenses
For Fiscal Year Ending June 30, 2005 Compared to 2004
(\$ In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	\$Change	% Change	\$Change	% Change	\$Change	% Change
Revenues						
Program revenues:						
Charges for services	103.9	16.3%	10.0	1.2%	113.9	7.9%
Operating grants & contributions	(9.8)	-0.7%			(9.8)	-0.7%
Capital grants & contributions	0.2	0.1%	(1.0)	-13.2%	(0.7)	-0.4%
General revenues:						
General Property Taxes	(100.9)	-20.4%			(100.9)	-20.4%
Special taxes	98.5	8.6%			98.5	8.6%
Personal taxes	1.3	1.3%			1.3	1.3%
Business License taxes	2.6	1.7%			2.6	1.7%
Interest	0.7	12.4%			0.7	12.4%
Miscellaneous	3.5	8.3%			3.5	8.3%
Total revenues	100.1	2.4%	9.1	1.1%	109.2	2.2%
Expenses						
General government	68.0	25.8%			68.0	25.8%
Administration of justice and public protection	10.3	3.7%			10.3	3.7%
Resource protection and development	5.8	4.6%			5.8	4.6%
Transportation	3.1	0.8%			3.1	0.8%
Health and social services	6.7	0.4%			6.7	0.4%
Education	(83.3)	-6.3%			(83.3)	-6.3%
Interest Expense	2.4	8.9%			2.4	8.9%
Turnpike System			1.8	3.1%	1.8	3.1%
Liquor Commission			18.0	6.1%	18.0	6.1%
Lottery Commission			(5.3)	-3.2%	(5.3)	-3.2%
Unemployment Compensation			(34.3)	-29.3%	(34.3)	-29.3%
Total expenses	13.0	0.3%	(19.7)	-3.1%	(6.7)	-0.1%

Governmental Activities

Governmental activities increased the state's net assets by \$19.8 million, before transfer activity. Revenues grew \$100.1 million or 2.4% from prior year to total \$4.2 billion. The growth was sufficient to offset expenses which grew \$13.0 million or 0.3%.

A comparison of the cost of services by function for the state's governmental activities with the related program revenues is shown in the chart below. Note that the largest expenses for the state, Health and Social Services and Education, also represent those activities that have the largest gap between expense and program revenues. Since these expenses are least recovered from program revenues, the differences are made up from general revenues, which primarily represent state's taxes, such as the statewide property taxes, business profits tax, business enterprise tax, real estate transfer, tobacco, meals and rooms, interest and dividends, etc. Health and Social Services grew less than 1.0% from the previous year, while Education expenses decreased approximately 6.0% due to lower education grant funding.



Business-Type Activities

Charges for goods and services for the state's combined business type activities were more than adequate to cover the operating expenses and resulted in net assets increasing by \$203.3 million prior to transfers. Business-Type activities include the operations from the Liquor Commission, Lottery Commission, Unemployment Compensation Fund and Turnpike Fund.

Sales growth from the operations of the Liquor Commission resulted in net proceeds of \$97.7 million, a 6.1% increase from prior year, being transferred to the General Fund to fund the general operations of the state. The lack of significant Powerball drawings during the year contributed to a 4.7% decline in net proceeds of \$70.3 million being transferred from the Lottery Commission to the Education Fund.

Turnpike System net assets increased by \$15.7 million or 5.6% during the year. This change however, represents a 3.4% decline in growth from last year due to lower toll revenue growth. The operations of Unemployment Compensation, resulted in an increase in net assets of \$19.5 million this fiscal year as claim levels declined sharply with the recovering economy.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

As noted earlier, the state uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the state's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the state's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

General Fund

The general fund is the chief operating fund of the state. The total fund equity was \$305.4 million. The general fund ended the year with a unreserved, undesignated surplus of \$82.2 million. The larger than expected surplus was a result of continued growth in the Real Estate Market, Business Taxes and tight spending controls which increased appropriation lapses. The rainy day fund balance remained at \$17.3 million.

Education Fund

The education fund, before year-end transfers, had an unreserved undesignated surplus of \$22.5 million. The Fund transferred the surplus balance to the general fund to reimburse for prior year deficits in the education fund. Expenditures declined this fiscal year by approximately 11.0% or \$101.9 million as a result of lower education grant funding. Revenues also declined during the year by \$74.1 million or 10.0%. Declines in property tax revenues as a result of rate changes were only partially offset by growth in real estate transfer and business taxes.

Proprietary Funds

The state's proprietary fund statements provide the same type of information found in the Government-Wide Financial Statements, but in more detail. Like the Government-Wide Financial Statements, Proprietary Fund Financial Statements use the accrual basis of accounting. Therefore there is no reconciliation needed between the Government-Wide Financial Statements for business-type activities and the Proprietary Fund Financial Statements.

BUDGETARY HIGHLIGHTS

During the fiscal year, the original budget was amended by various supplemental appropriations and appropriation revisions. Budget to Actual Schedules for the major governmental funds are in the Required Supplementary Information section beginning on page 71.

General Fund:

The increase from the original budget of \$3,573 million to the final budget of \$3,833 million is \$260 million and represents appropriations approved during FY05.

	<i>(in millions)</i>
Additional appropriations issued after July 1, 2004	\$ 314
Transfer of appropriations	(54)
Total	<u>\$ 260</u>

The additional appropriations issued after July 1, 2004 are composed of:

• HHS Medicaid Enhancement	\$ 114
• Judicial Retirement	43
• Homeland Security & Emergency Operations	34
• HHS Provider Payments	44
• Office of Information Technology Transfers	23
• Workforce Opportunity Council	8
• Education: Special Education Grants:	
Adequate Education Grants:	13
• Various	<u>35</u>
Total	<u>\$ 314</u>

The largest unfavorable variances from the final budget to actual amounts were for grant revenues. Grants from Federal, Private and Local Sources had a combined unfavorable variance of \$403 million. The unfavorable variances in grant revenues are due to timing differences that extend beyond the state's fiscal year and therefore revenue is not drawn down until expenditures are incurred.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The state's investment in capital assets for its governmental and business-type activities as of June 30, 2005, amounts to \$4.7 billion, with accumulated depreciation amounts of \$2.2 billion, leaving a net book value of \$2.5 billion, an increase of \$110.2 million from prior year. The investment in capital assets includes equipment, real property, infrastructure, computer software, and construction in progress. Infrastructure assets are items that are normally immovable, of value only to the state and include only roads and bridges. The net book value of the state's infrastructure for its roads and bridges approximates \$1.3 billion, which decreased \$43.9 million from the previous year, due to depreciation of \$46.9 million exceeding current year additions of \$3.0 million.

Additional information on the state's capital assets can be found in Footnote 4 of the Notes to the Financial Statements.

Debt Administration

The state may issue general obligation bonds, revenue bonds, and notes in anticipation of such bonds authorized by the Legislature and Governor and Council. The state may also directly guarantee certain authority or political subdivision obligations. At the end of the current fiscal year, the state had total bonded debt outstanding of \$995.8 million. Of this amount, \$701.0 million are general obligation bonds, which are backed by the full faith and credit of the state. The remainder of the state's bonded debt is Turnpike revenue bonds, which are secured by the specified revenue sources within the Turnpike System.

On December 10, 2004, the State issued \$60 million of general obligation capital improvement bonds. The interest rates of these 20-year bonds will be variable per the provisions of their auction rate security (ARS) features. These ARS Bonds are different from past bond issues in that these bonds carry an interest rate that will change every seven days through an auction process specified in the terms of the bonds. A portion of the proceeds from this issue was used to pay off \$50 million of bond anticipation notes which were outstanding at June 30, 2004.

On January 19, 2005, the state issued \$15 million of general obligation capital improvement bonds. The interest rates on these serial bonds range from 3.0% to 4.25%, and the maturity dates range from 2006 through 2025.

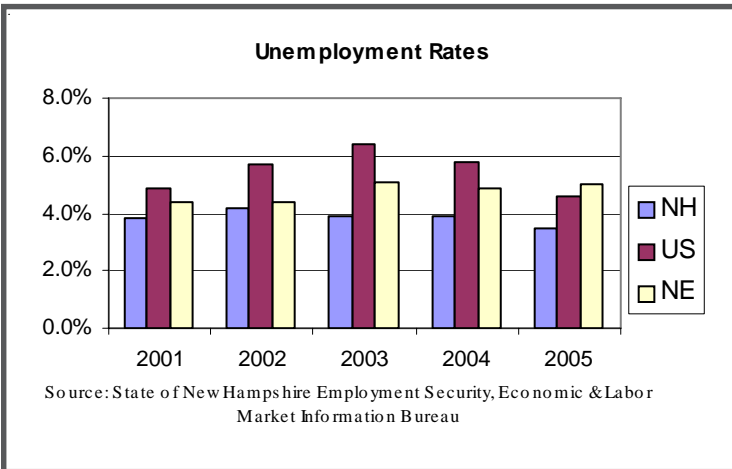
Also on January 19, 2005, the state issued \$42.8 million of taxable general obligation bonds to fund the unfunded accrued liability attributable to a newly established retirement plan for state judges pursuant to Chapter 311, Laws of 2003. The interest rates on these serial bonds range from 3.4% to 4.65%, and the maturity dates range from 2006 through 2015. .

The state does not have any debt limitations, except for contingent debt guarantees, which are detailed in the notes to the financial statements. Additional information on the state's long-term debt obligations can be found in Footnote 5 of the Notes to the Financial Statements.

Fitch Ratings and Standards & Poor's have assigned the state's bonds a rating of AA. Moody's Investors Service has assigned a rating for the state of Aa2.

ECONOMIC CONDITIONS AND OUTLOOK

New Hampshire's economy has had a steady recovery since the last recession. Employment in the state has expanded since the 2001 recession and the unemployment rate of 3.5% remains below the New England and national averages of 4.6% and 5.0%, respectively. In addition, the rate of growth in the gross state product (GSP) exceeds that of New England and the nation.



Since the last recession, when many states suffered revenue losses because of shortfalls in income tax proceeds, New Hampshire's revenues have grown because of its diversified revenue structure with business, real estate and statewide property taxes adding stability from year to year. Although total unrestricted revenue grew by less than 1% over the prior year, the strong fiscal year growth in business taxes (20.6%) and real estate transfer taxes (12.0%) was sufficient to offset the 21.5% decline in statewide property taxes due to rate reductions.

With the slight growth in revenue seen in fiscal year 2005, the state continued to be conscience of its spending habits. Budget reductions and program savings initiatives resulted in a 2.7% decrease in net appropriations.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the state's finances for all of New Hampshire citizens, taxpayers, customers, investors and creditors. This financial report seeks to demonstrate the state's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: State of New Hampshire, Department of Administrative Services, Division of Accounting Services, 25 Capitol Street, State House Annex Room 310, Concord, NH 03301.

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Basic Financial Statements

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STATE OF NEW HAMPSHIRE
STATEMENT OF NET ASSETS
JUNE 30, 2005
(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Current Assets:				
Cash and Cash Equivalents.....	\$ 353,181	\$ 293,259	\$ 646,440	\$ 203,620
Cash and Cash Equivalents-Restricted.....		18,000	18,000	844
Receivables (Net of Allowances for Uncollectibles).....	510,764	27,148	537,912	55,720
Other Receivables-Restricted.....				6,298
Internal Balances.....	(6,180)	6,180		
Due from Component Units.....	680		680	
Inventories.....	13,782	25,769	39,551	
Other Current Assets.....		51	51	5,780
Total Current Assets.....	872,227	370,407	1,242,634	272,262
Noncurrent Assets:				
Receivables (Net of Allowances for Uncollectibles).....	219,548		219,548	33,902
Due from Component Units.....	37,535		37,535	
Investments.....	37,293		37,293	271,028
Investments-Restricted.....		23,528	23,528	
Bond Issue Costs.....		3,598	3,598	
Other Assets.....		3,850	3,850	3,419
Capital Assets:				
Land & Land Improvements.....	466,708	107,820	574,528	10,494
Buildings & Building Improvements.....	577,122	24,151	601,273	889,849
Equipment & Computer Software.....	171,148	38,461	209,609	131,111
Construction in Progress.....	250,962	47,169	298,131	83,564
Infrastructure.....	2,532,386	536,021	3,068,407	
Less: Allowance for Depreciation	(2,041,781)	(204,600)	(2,246,381)	(458,494)
Net Capital Assets.....	1,956,545	549,022	2,505,567	656,524
Total Noncurrent Assets.....	2,250,921	579,998	2,830,919	964,873
Total Assets.....	3,123,148	950,405	4,073,553	1,237,135
LIABILITIES				
Current Liabilities:				
Accounts Payable.....	237,053	34,708	271,761	58,891
Accrued Payroll.....	36,911	1,858	38,769	66
Due to Primary Government.....				680
Deferred Revenue.....	24,312	3,908	28,220	35,286
Unclaimed Property & Prizes.....	23,488	1,548	25,036	
General Obligation Bonds Payable.....	71,150	3,682	74,832	
Claims & Compensated Absences Payable.....	31,737	2,371	34,108	10,395
Other Liabilities.....	5,692	6,157	11,849	17,045
Other Liabilities-Restricted.....		4,302	4,302	420
Revenue Bonds Payable-Restricted.....		10,900	10,900	
Revenue Bonds Payable.....				7,645
Total Current Liabilities.....	430,343	69,434	499,777	130,428
Noncurrent Liabilities:				
General Obligation Bonds Payable, Net	619,041	7,113	626,154	
Revenue Bonds Payable, Net		283,874	283,874	270,115
Claims & Compensated Absences Payable.....	73,705	3,787	77,492	67,324
Due to Primary Government.....				37,535
Other Noncurrent Liabilities.....	5,220	803	6,023	50,525
Total Noncurrent Liabilities.....	697,966	295,577	993,543	425,499
Total Liabilities.....	\$ 1,128,309	\$ 365,011	\$ 1,493,320	\$ 555,927

The notes to the financial statements are an integral part of this statement.

STATE OF NEW HAMPSHIRE
STATEMENT OF NET ASSETS
JUNE 30, 2005
(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
NET ASSETS				
Invested in Capital Assets, net of related debt.....	\$ 1,271,863	\$ 238,080	\$ 1,509,943	\$ 396,606
Restricted for Debt Repayments.....		41,528	41,528	
Restricted for Unemployment Benefits.....		272,765	272,765	
Restricted for Permanent Funds-Non-Expendable.....	13,742		13,742	
Restricted for Prize Awards - MUSL & Tri-State.....		3,850	3,850	
Restricted for Environmental Loans.....	231,852		231,852	
Restricted for Revenue Stabilization.....	17,344		17,344	
Restricted Component Unit Net Assets.....				225,495
Unrestricted Net Assets.....	460,038	29,171	489,209	59,107
Total Net Assets.....	\$ 1,994,839	\$ 585,394	\$ 2,580,233	\$ 681,208

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STATE OF NEW HAMPSHIRE
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental Activities:				
General Government.....	\$ 331,651	\$ 141,883	\$ 47,119	
Administration of Justice & Public Protection.....	288,737	282,820	73,931	\$ 23
Resource Protection and Development.....	130,113	62,381	46,875	3
Transportation.....	383,435	17,466	26,335	155,294
Health and Social Services.....	1,785,525	199,245	989,207	
Education.....	1,235,183	38,690	176,010	3,918
Interest Expense.....	29,467			
Total Governmental Activities.....	4,184,111	742,485	1,359,477	159,238
Business-type Activities:				
Turnpike System.....	58,582	67,866		6,373
Liquor Commission.....	313,838	411,764		
Lottery Commission.....	160,282	230,543		
Unemployment Compensation.....	82,549	102,012		
Total Business-type Activities.....	615,251	812,185		6,373
Total Primary Government.....	\$ 4,799,362	\$ 1,554,670	\$ 1,359,477	\$ 165,611
COMPONENT UNITS				
University System of New Hampshire.....	\$ 555,386	\$ 335,712	\$ 143,516	\$ 9,357
Non-Major Component Units.....	18,554	17,813	834	2,585
Total Component Units.....	\$ 573,940	\$ 353,525	\$ 144,350	\$ 11,942

General Property Taxes.....
Special Taxes.....
Personal Taxes.....
Business License Taxes.....
Interest & Investment Income.....
Miscellaneous.....
Payments from State of New Hampshire.....
Transfers - Internal Activities.....
Total General Revenues and Transfers.....
Changes in Net Assets.....
Net Assets - Beginning
Net Assets - Ending.....

Net (Expenses) Revenues and Changes in Net Assets

Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
\$ (142,649)		\$ (142,649)	
68,037		68,037	
(20,854)		(20,854)	
(184,340)		(184,340)	
(597,073)		(597,073)	
(1,016,565)		(1,016,565)	
(29,467)		(29,467)	
(1,922,911)		(1,922,911)	
	\$ 15,657	15,657	
	97,926	97,926	
	70,261	70,261	
	19,463	19,463	
	203,307	203,307	
\$ (1,922,911)	\$ 203,307	\$ (1,719,604)	
			\$ (66,801)
			2,678
			\$ (64,123)
393,426		393,426	
1,240,922		1,240,922	
101,360		101,360	
154,335		154,335	
6,557		6,557	13,123
46,156		46,156	
			108,002
167,944	(167,944)		
2,110,700	(167,944)	1,942,756	121,125
187,789	35,363	223,152	57,002
1,807,050	550,031	2,357,081	624,206
\$ 1,994,839	\$ 585,394	\$ 2,580,233	\$ 681,208

The notes to the financial statements are an integral part of this statement



Fund Financial Statements

Governmental Funds

General Fund: *The General Fund is the state's primary operating fund and accounts for all financial transactions not accounted for in any other fund.*

Highway Fund: *Under the state Constitution, all revenues in excess of the necessary cost of collection and administration accruing to the state from motor vehicle registration fees, operators' licenses, gasoline road toll, or any other special charges or taxes with respect to the operation of motor vehicles or the sale or consumption of motor vehicle fuels are appropriated and used exclusively for the construction, reconstruction, and maintenance of public highways within this state, including the supervision of traffic thereon and for the payment of the interest and principal of bonds issued for highway purposes. All such revenues, together with federal grants-in-aid received by the state for highway purposes, are credited to the Highway Fund. While the principal and interest on state highway bonds are charged to the Highway Fund, the assets of this fund are not pledged to such bonds.*

Education Trust Fund: *The Education Trust Fund was established to distribute adequate education grants to school districts. Funding for the grants comes from a variety of sources, including the statewide property and utility taxes, incremental portions of existing business and tobacco taxes, sweepstakes funds, and tobacco settlement funds.*

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STATE OF NEW HAMPSHIRE
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005
(Expressed in Thousands)

	General	Highway	Education	Non-Major Governmental Funds	Total Governmental Funds
<u>ASSETS</u>					
Cash and Cash Equivalents	\$ 199,872	\$ 112,474	\$ 15,035	\$ 8,539	\$ 335,920
Investments	23,551			13,742	37,293
Receivables (Net of Allowances for Uncollectibles)....	421,751	42,590	24,465	9,292	498,098
Due from Other Funds	38,724				38,724
Due from Components.....	38,215				38,215
Inventories.....	7,150	5,715		917	13,782
Loans and Notes Receivables	231,852				231,852
Total Assets	<u>\$ 961,115</u>	<u>\$ 160,779</u>	<u>\$ 39,500</u>	<u>\$ 32,490</u>	<u>\$ 1,193,884</u>
<u>LIABILITIES</u>					
Accounts Payable.....	\$ 194,777	\$ 23,128	\$ 4,899	\$ 14,249	\$ 237,053
Accrued Payroll.....	32,372	3,933		606	36,911
Due to Other Funds	6,031		22,649	16,224	44,904
Deferred Revenue	399,070	8,480	11,400	2,041	420,991
Unclaimed Property and Prizes.....	23,488				23,488
Other Liabilities.....	13				13
Total Liabilities.....	<u>655,751</u>	<u>35,541</u>	<u>38,948</u>	<u>33,120</u>	<u>763,360</u>
<u>FUND BALANCES</u>					
Reserved for Encumbrances.....	134,898	54,800		42,749	232,447
Reserved for Inventories.....	7,150	5,715		917	13,782
Reserved for Unexpended Appropriations.....	63,770	57,749	552	69,819	191,890
Reserved for Revenue Stabilization.....	17,344				17,344
Reserved for Permanent Trust				13,742	13,742
Unreserved, Undesignated (Note 14).....	82,202	6,974			89,176
Unreserved, Fish & Game Fund.....				3,056	3,056
Unreserved (Deficit), Capital Project Fund.....				(130,913)	(130,913)
Total Fund Balances (Deficit).....	<u>305,364</u>	<u>125,238</u>	<u>552</u>	<u>(630)</u>	<u>430,524</u>
Total Liabilities and Fund Balances.....	<u>\$ 961,115</u>	<u>\$ 160,779</u>	<u>\$ 39,500</u>	<u>\$ 32,490</u>	<u>\$ 1,193,884</u>

The notes to the financial statements are an integral part of this statement

STATE OF NEW HAMPSHIRE
RECONCILIATION OF THE BALANCE SHEET-
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005
(Expressed in Thousands)

Total fund balances for governmental funds	\$	430,524
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		1,956,545
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Certain tax revenues and loans are earned but not available and therefore are deferred in the funds:

Business Taxes, I&D, Meals & Rooms, and Utility Property	106,772	
Medicaid Hospital Reimbursements	11,412	
Highway Fund Municipal Billings	3,573	
Court System Fines	2,306	
Indigent Representation Advances	2,549	
SRF Loans	231,852	
Component Unit Loans	38,215	396,679

Internal service funds are used by management to charge the costs of certain activities, such as risk management and health related fringe benefits, to individual funds. The assets and liabilities of the internal service fund is included in governmental activities in the Statement of Net Assets.		2,832
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Certain long term liabilities are not payable by current available resources and therefore are not reported in the funds:

Compensated Absences and Workers Compensation	(90,651)	
Capital Lease Obligations	(6,438)	
Bond Payables	(690,191)	
Interest Payable	(4,461)	(791,741)

Net Assets of Governmental Activities	\$	<u>1,994,839</u>
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STATE OF NEW HAMPSHIRE
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Expressed in Thousands)

	General	Highway	Education	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
General Property Taxes.....	\$ 872		\$ 391,404		\$ 392,276
Special Taxes.....	976,403		240,461		1,216,864
Personal Taxes.....	73,146		28,214		101,360
Business License Taxes.....	18,704	\$ 154,335			173,039
Non-Business License Taxes.....	92,133	73,216		\$ 8,451	173,800
Fees.....	108,799	22,258		1,207	132,264
Fines, Penalties and Interest.....	23,417	612		159	24,188
Grants from Federal Government.....	1,235,370	148,072		31,628	1,415,070
Grants from Private and Local Sources.....	100,056	3,321		479	103,856
Rents and Leases.....	1,296				1,296
Interest, Premiums and Discounts.....	9,219	2,134		617	11,970
Sale of Commodities.....	8,239	173		289	8,701
Sale of Service.....	162,117	4,350		5	166,472
Assessments.....	82,209				82,209
Grants from Other Agencies.....	8,058	1,273		11,252	20,583
Miscellaneous.....	97,454	9,008	40,000	8,597	155,059
Total Revenues.....	2,997,492	418,752	700,079	62,684	4,179,007
EXPENDITURES					
General Government.....	308,424		3,331		311,755
Administration of Justice and Public Protection.....	277,524	1,381			278,905
Resource Protection and Development.....	138,164			21,411	159,575
Transportation.....	8,769	249,474			258,243
Health and Social Services.....	1,785,996			264	1,786,260
Education.....	402,516		806,265		1,208,781
Debt Service.....	84,767	5,674		290	90,731
Capital Outlay.....	24,141	153,362		110,647	288,150
Total Expenditures.....	3,030,301	409,891	809,596	132,612	4,382,400
Excess (Deficiency) of Revenues					
Over (Under) Expenditures.....	(32,809)	8,861	(109,517)	(69,928)	(203,393)
OTHER FINANCING SOURCES (USES)					
Transfers In	838		38,878	1,595	41,311
Transfers in from Enterprise Funds.....	97,681		70,263		167,944
Transfers Out.....	(39,635)	(1,676)			(41,311)
G.O. Bond Premiums.....	58			123	181
G.O. Bond Issuance.....	42,800			75,000	117,800
Total Other Financing Sources (Uses).....	101,742	(1,676)	109,141	76,718	285,925
Excess (Deficiency) of Revenues and Other Sources					
Over (Under) Expenditures and Other Uses.....	68,933	7,185	(376)	6,790	82,532
Fund Balances - July 1	235,364	118,243	928	(7,735)	346,800
Change in Reserve for Inventory.....	1,067	(190)		315	1,192
Fund Balances (Deficit)- June 30.....	\$ 305,364	\$ 125,238	\$ 552	\$ (630)	\$ 430,524

**STATE OF NEW HAMPSHIRE
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Expressed in Thousands)**

Net change in fund balance - total governmental funds \$ 83,724

Revenue recognized on the Statement of Activities that do not provide current financial resources on the fund statements resulted in a net decrease from prior year (838)

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Land & Land Improvements	41,608	
Buildings & Building Improvements	84,063	
Equipment & Computer Software	8,054	
Construction in Progress	35,776	
Infrastructure	545	
Accumulated Depreciation, net of Disposals	<u>(70,399)</u>	99,647

Internal service funds are used by management to charge the costs of certain activities, such as risk management and health related fringe benefits, to individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities. 14,963

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which proceeds exceeded repayments.

Bond Proceeds & Premiums Received	(117,800)	
Repayment of Bond Principal & Interest	68,192	
Accretion of Bonds Payable	(6,903)	
Accrued Interest & Amortization	<u>(25)</u>	(56,536)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. Elimination of the following expenses resulted in a net increase from prior year:

Changes in Compensated Absences & Workers Compensation	(560)	
Catastrophic Medicaid Payments	14,500	
Change in Capital Lease Obligation	1,024	
SRF loan program	<u>31,865</u>	46,829

Change in net assets of governmental activities \$ 187,789



Proprietary Fund Financial Statements

Turnpike System: *The state constructs, maintains, and operates transportation toll facilities. The Legislature has established a 10-year state highway construction and reconstruction plan and authorized major expansion and improvement projects as part of a Capital Improvement Program. These include a partial circumferential highway around the City of Nashua and other projects that will provide major improvements to the Central Turnpike from Bedford to Nashua and include new interchanges, widening, and a toll plaza. Additional projects are planned that will provide safety improvements to the existing Turnpike System and increase the Turnpike System's capacity.*

Liquor Commission: *Receipts from operations of the Liquor Commission are transferred to the General Fund on a daily basis. The General Fund advances cash to the Liquor Commission for the purchase of liquor inventory. By statute, all liquor and beer sold in the state must be sold through a sales and distribution system operated by the state Liquor Commission, comprising three members appointed by the Governor with the consent of the Executive Council. The Commission makes all liquor purchases directly from the manufacturers and importers and operates state liquor stores in cities and towns that accept the provisions of the local option law. The Commission is authorized to lease and equip stores, warehouses, and other merchandising facilities for liquor sales, to supervise the construction of state-owned liquor stores at various locations in the state, and to sell liquor through retail outlets as well as direct sales to restaurants, hotels, and other organizations. The Commission also charges permit and license fees for the sale of beverages through private distributors and retailers and an additional fee of 30 cents per gallon on beverages sold by such retailers.*

Lottery Commission: *The state sells lottery games through some 1,350 agents, including state liquor stores, licensed racetracks, and private retail outlets. Through the sale of lottery tickets, revenue is generated for prize payments and commission expenses, with the net income used for aid to education. This net income is transferred to the Education Fund and then transferred to the local school districts.*

New Hampshire Unemployment Trust Fund: *Receives contributions from employers and provides benefits to eligible unemployed workers.*

Internal Service Fund: *The employee benefit risk management fund reports the health related fringe benefit services for the state. The fund was created to account for the state's self-insurance program and to pool all resources to pay for the cost associated with providing these benefits to active employees and retirees.*

**STATE OF NEW HAMPSHIRE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005
(Expressed in Thousands)**

	Business-Type Activities - Enterprise Funds					Governmental
	Turnpike System	Liquor Commission	Lottery Commission	Unemployment Compensation	Total	Activities Internal Service Fund
ASSETS						
Current Assets:						
Cash and Cash Equivalents.....	\$ 28,965	\$ 708	\$ 1,353	\$ 262,233	\$ 293,259	\$ 17,261
Cash and Cash Equivalents-Restricted.....	18,000				18,000	
Receivables (Net of Allowances for Uncollectibles).....	3,184	6,604	1,549	15,811	27,148	362
Due from Other Funds.....		6,031	149		6,180	
Inventories.....	934	24,213	622		25,769	
Other Current Assets.....			51		51	
Total Current Assets.....	51,083	37,556	3,724	278,044	370,407	17,623
Noncurrent Assets:						
Investments-Restricted.....	23,528				23,528	
Bond Issue Costs.....	3,598				3,598	
Capital Assets:						
Land & Land Improvements.....	104,588	3,232			107,820	
Buildings & Building Improvements.....	4,828	19,323			24,151	
Equipment & Computer Software.....	28,738	9,211	512		38,461	
Construction in Progress.....	47,169				47,169	
Infrastructure.....	536,021				536,021	
Less: Allowance for Depreciation & Amortization.....	(186,687)	(17,528)	(385)		(204,600)	
Net Capital Assets.....	534,657	14,238	127		549,022	
Other Assets.....			3,850		3,850	
Total Noncurrent Assets.....	561,783	14,238	3,977		579,998	
Total Assets.....	612,866	51,794	7,701	278,044	950,405	17,623
LIABILITIES						
Current Liabilities:						
Accounts Payable.....	2,054	31,934	720		34,708	
Accrued Payroll.....	649	1,087	122		1,858	
Due to Other Funds.....						
Deferred Revenue.....	1,044	1,805	1,059		3,908	
Unclaimed Prizes.....			1,548		1,548	
General Obligation Bonds Payable.....	3,682				3,682	
Revenue Bonds Payable-Restricted.....	10,900				10,900	
Accrued Interest Payable-Restricted.....	4,302				4,302	
Claims & Compensated Absences Payable.....	1,371	904	96		2,371	14,791
Other Liabilities.....	609	269		5,279	6,157	
Total Current Liabilities.....	24,611	35,999	3,545	5,279	69,434	14,791
Noncurrent Liabilities:						
General Obligation Bonds Payable.....	7,113				7,113	
Revenue Bonds Payable.....	283,874				283,874	
Claims & Compensated Absences Payable.....	1,640	1,826	321		3,787	
Other Noncurrent Liabilities.....		803			803	
Total Noncurrent Liabilities.....	292,627	2,629	321		295,577	
Total Liabilities.....	317,238	38,628	3,866	5,279	365,011	14,791
NET ASSETS						
Invested in Capital Assets, net of related debt.....	224,787	13,166	127		238,080	
Restricted for Debt Repayments.....	41,528				41,528	
Restricted for Prize Awards - MUSL & Tri-State.....			3,850		3,850	
Restricted for Unemployment Benefits.....				272,765	272,765	
Unrestricted Net Assets (Deficit).....	29,313		(142)		29,171	2,832
Total Net Assets.....	\$ 295,628	\$ 13,166	\$ 3,835	\$ 272,765	\$ 585,394	\$ 2,832

The notes to the financial statements are an integral part of this statement

**STATE OF NEW HAMPSHIRE
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Expressed in Thousands)**

	Business-Type Activities - Enterprise Funds					Governmental
	Turnpike System	Liquor Commission	Lottery Commission	Unemployment Compensation	Total	Activities Internal Service Fund
OPERATING REVENUES						
Charges for Sales and Services.....		\$ 392,336	\$ 230,029	\$ 88,683	\$ 711,048	\$ 201,915
Toll Revenue Pledged for						
Repaying Revenue Bonds.....	\$ 66,626				66,626	
Total Operating Revenue.....	66,626	392,336	230,029	88,683	777,674	201,915
OPERATING EXPENSES						
Cost of Sales and Services.....		284,866	20,501		305,367	
Lottery Prize Awards.....			132,686		132,686	
Unemployment Insurance Benefits.....				82,549	82,549	
Insurance Claims.....						178,517
Administration.....	31,165	27,514	7,043		65,722	8,435
Depreciation.....	12,559	1,458	52		14,069	
Total Operating Expenses.....	43,724	313,838	160,282	82,549	600,393	186,952
Operating Income	22,902	78,498	69,747	6,134	177,281	14,963
NONOPERATING REVENUES (EXPENSES)						
Licenses.....		3,443			3,443	
Beer Taxes.....		12,227			12,227	
Investment Income.....	1,162		514	13,329	15,005	
Miscellaneous.....	78	3,758			3,836	
Interest on Bonds.....	(14,628)				(14,628)	
Amortization of Bond Issuance Costs.....	(230)				(230)	
Total Nonoperating Revenues (Expenses).....	(13,618)	19,428	514	13,329	19,653	
Income Before Grant Contributions.....	9,284	97,926	70,261	19,463	196,934	14,963
Grant Contributions.....	6,373				6,373	
Income Before Operating Transfers.....	15,657	97,926	70,261	19,463	203,307	14,963
Transfers Out to Governmental Funds.....		(97,667)	(70,277)		(167,944)	
Change in Net Assets.....	15,657	259	(16)	19,463	35,363	14,963
Net Assets - July 1						
(Restated Lottery Commission-Note 16).....	279,971	12,907	3,851	253,302	550,031	(12,131)
Net Assets - June 30.....	\$ 295,628	\$ 13,166	\$ 3,835	\$ 272,765	\$ 585,394	\$ 2,832

The notes to the financial statements are an integral part of this statement

**STATE OF NEW HAMPSHIRE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Expressed in Thousands)

	Business-Type Activities - Enterprise Funds					Governmental Activities	
	Turnpike System	Liquor Commission	Lottery Commission	Unemployment Compensation	Total	Internal Service Fund	
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts from federal and local agencies.....				\$ 1,239	\$ 1,239		
Receipts from customers.....	\$ 65,527	\$ 391,308	\$ 121,923	90,603	669,361	\$ 16,475	
Receipts from interfund charges.....						185,282	
Payments to employees.....	(11,028)	(15,851)	(1,629)		(28,508)		
Payments to suppliers.....	(17,265)	(286,803)	(5,801)		(309,869)	(8,435)	
Payments to prize winners.....			(44,516)		(44,516)		
Payments for Insurance Claims.....				(82,340)	(82,340)	(179,305)	
Payments for Interfund Services.....	(3,449)	(3,460)	(882)		(7,791)		
Net Cash Provided by Operating Activities.....	33,785	85,194	69,095	9,502	197,576	14,017	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Transfers to Other Funds.....		(104,329)	(72,671)		(177,000)		
Proceeds from Collection of Licenses and Beer Tax.....		15,670			15,670		
Net Cash Used for Noncapital and Related Financing Activities.....		(88,659)	(72,671)		(161,330)		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Acquisition, Disposal and Construction of Capital Assets.....	(20,863)	(259)	(49)		(21,171)		
Grant Contributions.....	6,373				6,373		
Interest Paid on Revenue & General Obligation Bonds....	(16,620)				(16,620)		
Principal Paid on Bonds.....	(14,905)				(14,905)		
Contributions from Other Funds.....		259			259		
Net Cash (Used) for Capital and Related Financing Activities.....	(46,015)		(49)		(46,064)		
CASH FLOWS FROM INVESTING ACTIVITIES							
Sale of Investments.....	9,529				9,529		
Purchase of Investments.....	(5,051)				(5,051)		
Proceeds from Maturities of Investments.....	5,000				5,000		
Interest and Other Income.....	1,976	3,517	506	13,329	19,328		
Net Cash Provided by Investing Activities.....	11,454	3,517	506	13,329	28,806	-	
Net Increase (Decrease) in Cash & Cash Equivalents.....	(776)	52	(3,119)	22,831	18,988	14,017	
Cash and Cash Equivalents - July 1.....	47,741	656	4,472	239,402	292,271	3,244	
Cash and Cash Equivalents - June 30.....	\$ 46,965	\$ 708	\$ 1,353	\$ 262,233	\$ 311,259	\$ 17,261	
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:							
Operating Income	\$ 22,902	\$ 78,498	\$ 69,747	\$ 6,134	\$ 177,281	\$ 14,963	
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:							
Depreciation.....	12,559	1,458	52		14,069		
Change in Operating Assets and Liabilities:							
(Increase) Decrease in Receivables.....	(2,143)	(811)	(383)	3,169	(168)	(362)	
(Increase) Decrease in Inventories.....	(546)	817	(37)		234		
(Increase) Decrease in Other Current Assets.....			5		5		
(Increase) Decrease in Restricted Deposits-MUSL.....			1		1		
Increase (Decrease) in Accounts Payable and other Accruals.....	(31)	5,449	(133)	199	5,484		
Increase (Decrease) in Claims Payable.....			(378)		(378)	(584)	
Increase (Decrease) in Deferred Revenue.....	1,044	(217)	221		1,048		
Net Cash Provided by Operating Activities.....	\$ 33,785	\$ 85,194	\$ 69,095	\$ 9,502	\$ 197,576	\$ 14,017	

The notes to the financial statements are an integral part of this statement

Component Units

STATE OF NEW HAMPSHIRE
COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Expressed in Thousands)

ASSETS	University System of New Hampshire	Non-Major Component Unit	Total
Current Assets:			
Cash and Cash Equivalents.....	\$ 187,833	\$ 15,787	\$ 203,620
Cash and Cash Equivalents-Restricted.....		844	844
Accounts Receivable.....	27,739	3,542	31,281
Other Receivables-Restricted.....		6,298	6,298
Notes Receivable - Current Portion.....	4,174	20,265	24,439
Prepaid Expenses & Other.....	5,441	339	5,780
Total Current Assets.....	225,187	47,075	272,262
Noncurrent Assets:			
Investments.....	258,768	12,260	271,028
Notes & Other Receivables.....	22,300	9,305	31,605
Pledge Receivable-Restricted.....		2,297	2,297
Other Assets.....	2,450	969	3,419
Capital Assets:			
Land & Land Improvements.....	10,117	377	10,494
Building & Building Improvements.....	795,785	94,064	889,849
Equipment.....	125,777	5,334	131,111
Construction in Progress.....	80,887	2,677	83,564
Less: Accumulated Depreciation.....	(424,573)	(33,921)	(458,494)
Net Capital Assets.....	587,993	68,531	656,524
Total Noncurrent Assets.....	283,518	24,831	308,349
Total Assets.....	1,096,698	140,437	1,237,135
LIABILITIES			
Current Liabilities:			
Accounts Payable.....	57,551	1,340	58,891
Accrued Salaries and Wages.....		66	66
Accrued Employee Benefits - Current.....	10,377	18	10,395
Other Payables & Accrued Expenses.....		17,045	17,045
Other Liabilities-Restricted.....		420	420
Deposits and Deferred Revenues.....	30,573	4,713	35,286
Due to Primary Government - Current Portion.....	680		680
Long Term Debt-Current Portion.....	5,830	1,815	7,645
Total Current Liabilities.....	105,011	25,417	130,428
Noncurrent Liabilities:			
Revenue Bonds Payable.....	270,115		270,115
Accrued Employee Benefits.....	67,324		67,324
Due to Primary Government.....	2,456	35,079	37,535
Other Long Term Debt.....	18,989	31,536	50,525
Total Noncurrent Liabilities.....	358,884	66,615	425,499
Total Liabilities.....	463,895	92,032	555,927
NET ASSETS			
Invested in Capital Assets, Net of Related Debt.....	349,519	47,087	396,606
Restricted for Endowments.....	217,776		217,776
Restricted for Specific Purposes.....		1,420	1,420
Restricted for Long Term Receivable.....		6,299	6,299
Total Restricted Net Assets.....	567,295	54,806	622,101
Unrestricted Net Assets.....	65,508	(6,401)	59,107
Total Net Assets.....	\$ 632,803	\$ 48,405	\$ 681,208

STATE OF NEW HAMPSHIRE
 COMBINING STATEMENT OF ACTIVITIES
 COMPONENT UNITS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005
 (Expressed in Thousands)

	University System of New Hampshire	Total Non-Major	Total
Expenses.....	\$ 555,386	\$ 18,554	\$ 573,940
Program Revenues:			
Charges for Services:			
Tuition & Fees.....	246,330		246,330
Scholarship Allowances.....	(64,255)		(64,255)
Sales, Services, & Other Revenue.....	153,637	17,813	171,450
Operating Grants & Contributions.....	143,516	834	144,350
Capital Grants & Contributions.....	9,357	2,585	11,942
Total Program Revenues.....	488,585	21,232	509,817
Net Revenues (Expenses).....	(66,801)	2,678	(64,123)
Interest & Investment Income.....	12,892	231	13,123
Payments (to) from State of New Hampshire....	108,243	(241)	108,002
Change in Net Assets.....	54,334	2,668	57,002
Net Assets - Beginning.....	578,469	45,737	624,206
Net Assets - Ending.....	\$ 632,803	\$ 48,405	\$ 681,208

Fiduciary Funds Financial Statements

Private-Purpose Trust Funds: *Private-Purpose Trust Funds report resources of all other trust arrangements in which principal and income benefit individuals, private organizations, or other governments.*

Investment Trust Fund: *The investment trust fund represents the external portion of the New Hampshire Public Deposit Investment Pool (NHPDIP). The NHPDIP has been established, in accordance with RSA 383:22-24, for the purpose of investing funds of the state of New Hampshire, funds under the custody of all governmental units, pooled risk management programs established pursuant to RSA 5-B, agencies, authorities, commissions, boards, political subdivisions, and all other public units within, or instrumentalities of the state of New Hampshire. In accordance with GAAP, the external portion of the NHPDIP is reported as an investment trust fund in the Fiduciary Funds using the economic resources measurement focus and accrual basis of accounting. NHPDIP financial statements can be obtained by contacting NHPDIP at 497 Belknap Mountain Rd, Gilford NH 03249.*

Agency Funds: *Assets received by the state as an agent for other governmental units, other organizations, or individuals are accounted for as agency funds. The Nuclear Decommissioning Fund related to the Seabrook Nuclear Power Plant and Unified Court System Litigation accounts which are held pending judicial judgements are two of the larger agency funds of the state.*

STATE OF NEW HAMPSHIRE
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2005
(Expressed in Thousands)

	Private-purpose Trust Funds	Investment Trust Funds	Agency Funds
ASSETS			
Cash and Cash Equivalents.....	\$ 8,263		\$ 11,853
Cash Collateral on Security Lending.....			
Total Cash.....	8,263		11,853
Receivables:			
Other	\$ 310		
Total Receivables.....	-	310	
Investments.....	15,852	243,211	332,406
Other Assets.....			
Total Assets.....	24,115	243,521	344,259
LIABILITIES			
Management Fees and Other Payables.....		90	
Due to Brokers for Securities Purchased.....			
Custodial Funds Payable.....			344,237
Other Liabilities.....	121		22
Total Liabilities.....	121	90	344,259
Net Assets Held in Trust for Benefits & Other Purposes.....	\$ 23,994	\$ 243,431	

RECONCILIATION OF NET ASSETS HELD IN TRUST:

Net Assets for Pool Participants in			
External Investment Pool.....		\$ 243,431	
Other Purposes.....	\$ 23,994		
Net Assets Held in Trust for Benefits & Other Purposes.....	\$ 23,994	\$ 243,431	

STATE OF NEW HAMPSHIRE
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Expressed in Thousands)

	Private-purpose Trust Funds	Investment Trust Funds
<u>ADDITIONS</u>		
Contributions:		
From Participants.....	\$ 19,840	\$ 384,882
Total Contributions.....	19,840	384,882
Investment Income:		
From Investing Activities:		
Net (Depreciation) in Fair Value of Investments.....	870	
Interest Income.....	226	
Net Increase in Joint Value from Investment Income.....		4,719
Total Net Income from Investing Activities.....	1,096	4,719
Total Additions.....	20,936	389,601
<u>DEDUCTIONS</u>		
Benefits/Distributions to Participants.....	14,278	4,719
Other.....	95	416,585
Total Deductions.....	14,373	421,304
Change in Net Assets.....	6,563	(31,703)
<u>NET ASSETS HELD IN TRUST FOR BENEFITS & OTHER PURPOSES</u>		
Beginning of the Year.....	17,431	275,134
End of the Year.....	\$ 23,994	\$ 243,431

Notes to the Basic Financial Statements

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NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of New Hampshire (the state) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for establishing governmental accounting and financial reporting principles.

A. REPORTING ENTITY

For financial reporting purposes, the state's reporting entity includes all funds, organizations, agencies, boards, commissions, authorities and the state has considered all potential component units, except for the New Hampshire Retirement System, for which the state is financially accountable and other organizations for which the nature and significance of their relationship with the state are such that exclusion would cause the state's financial statements to be misleading or incomplete. The criteria to be considered in determining financial accountability include whether the state, as the primary government, has appointed a voting majority of an organization's governing body and (1) has the ability to impose its will on that organization or (2) there is potential for the organization to provide specific financial benefits to or impose specific financial burdens on the state. Financial accountability also exists if an organization is determined to be fiscally dependent on the primary government, although the primary government does not appoint a voting majority of the organization's governing board.

Once financial accountability has been determined for a potential component unit, that component unit is either blended into the primary government or discretely presented from the primary government. Potential component units that do not meet the financial accountability criteria, but where a voting majority of the governing board is appointed by the state, are deemed to be related organizations. The nature and relationship of the state's component units and related organizations are disclosed in the following section.

Discrete Component Units:

Discrete component units are entities, which are legally separate from the state, but for which the state is financially accountable for financial reporting purposes, or whose relationship with the state is such that exclusion would cause the state's financial statements to be misleading or incomplete. Complete audited financial statements of the individual component units can be obtained from the respective entities.

The component unit columns of the government-wide financial statements include the financial data of the following entities:

Major Component Unit

University System of New Hampshire - The University System of New Hampshire (University System) is a body corporate and politic with a governing board of twenty-five members. A voting majority is held by the state through

the eleven members appointed by the Governor and Executive Council and three state officials serving as required by law. These state officials are the Governor, the Commissioner of the Department of Education, and the Commissioner of the Department of Agriculture. The remaining board members represent the university and colleges of the system, the alumni, and the student body. The University System funds its operations through tuition and fees, government grants and contracts, auxiliary operations, and state appropriations. USNH financials can be obtained by contacting, USNH at 18 Garrison Avenue, Durham NH 03824.

Non-major Component Units

Business Finance Authority of the State of New Hampshire - The Business Finance Authority (BFA) is a body corporate and politic with a governing board of fourteen members. The board consists of nine members appointed by the Governor with the consent of the Executive Council. The remaining members include two state Representatives, two Senators, and the Treasurer. The state currently guarantees outstanding loans and principal on bonds of the BFA as of June 30, 2005, which creates the potential for the BFA to impose a financial burden on the state. BFA's financials can be obtained by contacting, BFA at 14 Dixon Avenue, Suite 101, Concord NH 03301.

Community Development Finance Authority - The Community Development Finance Authority (CDFA) is a body corporate and politic organized as a nonprofit corporation under Revised Statutes Annotated (RSA) 292. The governing board of eleven members is made up of the Commissioner of the Department of Resources and Economic Development or designee and ten public members appointed by the Governor and Executive Council as follows: four representatives of community development corporations or other nonprofit organizations engaged in community development activities, one representative of organized labor, two representatives of small business and the financial community, one representative of employment training programs, and two representatives of private financial institutions. An investment tax credit equal to 75 percent of the contribution made to the CDFA during the contributor's tax year is allowed against certain taxes imposed by the state. In accordance with RSA 162-L:10, the total credits allowed shall not exceed \$5.0 million in any state fiscal year. CDFA's financials can be obtained by contacting CDFA at, CDFA 14 Dixon Avenue, Suite 101, Concord NH 03301.

Pease Development Authority - The Pease Development Authority (PDA) is a body corporate and politic with a governing body of seven members. Four members are appointed by the Governor and state legislative leadership, and three members are appointed by the city of Portsmouth and the town of Newington. The state currently guarantees outstanding loans and principal on bonds of the PDA and has issued bonds on behalf of the PDA as of June 30, 2005, which creates the potential for the PDA to impose a financial burden on the state. In addition, the state has made several loans to the PDA. PDA's financials can be obtained by contacting PDA at, 360 Corporate Drive, Portsmouth NH 03801.

Pursuant to Chapter 290 Laws of 2001, the New Hampshire State Port Authority, a former department of the primary state government, was transferred to the PDA effective July 1, 2001.

Fiduciary Component Unit:

The state's fiduciary component unit consists of the Pension Trust Fund, which represents the assets and liabilities of the following:

New Hampshire Retirement System - The New Hampshire Retirement System (System) is a contributory pension plan and trust qualified as a tax exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. It is a defined benefit plan providing disability, death, and retirement protection to its members, which include full-time employees of the state and substantially all school teachers, firefighters, and police officers within the state. Full-time employees of political subdivisions may participate if their governing body elects to participate.

The System is administered by a 13 member board of Trustees on which the state does not represent a voting majority. The Board is fiduciarily responsible for the trust fund's assets and directs the investment of the pension assets, reviews actuarial assumptions and valuations from which the employer contribution rates are certified by the board, and generally supervises the operations of the System.

The System is deemed to be fiscally dependent on the state because the employee member contribution rates are set through state statute, and the state has budget approval authority over the administrative costs of the System.

This component unit has not been presented in the fiduciary funds due to the ongoing audit of their fiscal 2005 financial statements. The release date of New Hampshire Retirement System audited financial statements is unknown as of the date of this report.

Related Organizations:

The state is responsible for appointing voting members to the governing boards of the following legally separate organizations, but the state's financial accountability for these organizations does not extend beyond making the appointments. Therefore, the financial data of these entities are excluded from the state's financial statements.

Those organizations are:

- Maine - New Hampshire Interstate Bridge Authority
- New Hampshire Health and Education Facilities Authority
- New Hampshire Housing Finance Authority
- New Hampshire Municipal Bond Bank

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-Wide Financial Statements

The Statement of Net Assets and Statement of Activities report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Primary government activities are distinguished between governmental and business-type activities. Governmental activities are normally supported through taxes and intergovernmental revenues. Business-type activities rely, to a significant extent, on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

The *Statement of Net Assets* presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets.

The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not meeting the definition of program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenue rather than program revenue. Certain indirect costs are included in program expenses reported for individual functions.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

Measurement Focus and Basis of Accounting

The *government-wide financial statements* are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the state generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences and claims and judgments are recorded only when payment is due.

Proprietary Fund, Fiduciary Funds and Similar Component Units, and Discrete Component Unit financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

In reporting proprietary activities, including component units, the state only applies applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, for its business-type activities and enterprise funds, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Financial Statement Presentation

A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to report financial position and the results of operations, to demonstrate legal compliance, and to aid financial management by segregating transactions related to certain government functions or activities.

The state reports the following major governmental funds:

General Fund: The General Fund is the state's primary operating fund and accounts for all financial transactions not accounted for in any other fund.

Highway Fund: The Highway Fund is used to account for the revenues and expenditures used in the construction and maintenance of the state's public highways and the supervision of traffic thereon.

Education Fund: In fiscal year 2000, the Education Trust Fund was created in accordance with Chapter 17:41, Laws of 1999. The fund is non-lapsing and is used to distribute adequate education grants to school districts.

The state reports the following major enterprise funds:

The *Liquor Commission* accounts for the operations of state-owned liquor stores and the sales of all beer and liquor sold in the state.

The *Lottery Commission* accounts for the operations of the state's lottery games.

The *Turnpike System* accounts for the revenues and expenditures used in the construction, maintenance and operations of transportation toll facilities.

The *New Hampshire Unemployment Trust Fund* receives contributions from employers and provides benefits to eligible unemployed workers.

Additionally, the state reports the following fund types:

Governmental Fund Types

Capital Projects Fund - used to account for certain capital improvement appropriations which are or will be primarily funded by the issuance of state bonds or notes, other than bonds and notes for highway or turnpike purposes, or by the application of certain federal matching grants.

Permanent Funds - report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the state or its citizenry.

Proprietary Fund Types

Internal Service Fund - provides services primarily to other agencies or funds of the state, rather than to the general public. These services include health related fringe benefits. The internal service fund was established in October 2003. In the government-wide financial statements, internal service funds are included with governmental activities.

Fiduciary Fund Types

Investment Trust Fund - accounts for the transactions, assets, liabilities and fund equity of the external investment pool.

Private Purpose Trust Funds - report resources of all other trust arrangements in which principal and income benefit individuals, private organizations, or other governments.

Agency Funds - report assets and liabilities for deposits and investments entrusted to the State as an agent for others.

Reporting Periods

The accompanying financial statements of the state are presented as of June 30, 2005, and for the year then ended, except for the following entities: The Community Development Finance Authority (December 31, 2004).

D. CASH EQUIVALENTS

For the purposes of the Statement of Cash Flows, cash equivalents represent short-term investments with original maturities less than three months from the date acquired by the state.

E. INVESTMENTS

Investments are reported at fair value except for investments of the investment trust fund, which are reported at net amortized cost because it qualifies as a 2a7-like pool.

F. RECEIVABLES

Receivables in the government-wide financial statements represent amounts due to the state at June 30, recorded as revenue, which will be collected sometime in the future and consist primarily of accrued taxes and federal grants receivable. In the governmental fund financial statements, taxes receivable are primarily taxpayer-assessed revenues representing amounts owed by the taxpayers, which are received by the state within 60 days after year-end, except for federal grants, which reimburse the state for expenditures incurred pursuant to federally funded programs. Tax revenues are susceptible to accrual in accordance with measurable and available criteria under the modified accrual basis of accounting.

G. INVENTORIES

Inventories for materials and supplies are determined by physical count. The Lottery's game tickets are stated at the lower of cost (first-in, first-out method) or market. All other inventories in the governmental and proprietary funds are stated at average cost.

Governmental fund inventories are recorded under the purchase method. Reported inventory balances in the governmental funds are offset by a fund balance reserve that indicates they do not constitute "available expendable resources".

H. RESTRICTED ASSETS

The proceeds of Turnpike System revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets.

I. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets, whether purchased or constructed, are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

Equipment is capitalized when the cost of individual items exceed \$10,000, and all other capital assets are capitalized when the cost of individual items or projects exceed \$100,000. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets of the primary government and the component units are depreciated using the straight-line method over the following useful lives:

Equipment	5 years
Buildings	40 years
Building improvements	20 years
Infrastructure	50 years
Computer software	5 years

J. DEFERRED REVENUE

In the government-wide financial statements and the proprietary fund financial statements, deferred revenue is recognized when cash, receivables or other assets are recorded prior to their being earned. In the governmental fund financial statements deferred revenue represents monies received or revenues accrued which have not been earned or do not meet the "available" criterion for revenue recognition under the modified accrual basis of accounting. The deferred revenue in the governmental fund types has primarily resulted as an offset to long-term loans receivable and federal funds received in advance of eligible expenditures.

K. COMPENSATED ABSENCES

All full-time state employees in classified service earn annual and sick leave. At the end of each fiscal year, additional leave (bonus days) may be awarded based on the amount of sick leave taken during the year. Accrued compensatory time, earned for overtime worked, must be taken within one year.

The state's compensated absences liability represents the total liability for the cumulative balance of employees' annual, bonus, compensatory, and sick leave based on years of service rendered along with the state's share of social security and retirement contributions. The current portion of the leave liability is calculated based on the characteristics of the type of leave and on a LIFO (last in first out) basis, which assumes employees use their most recent earned leave first. The accrued liability for annual leave does not exceed the maximum cumulative balance allowed which ranges from 32 to 50 days based on years of service. The accrual for sick leave is made to the extent it's probable that the benefits will result in termination payments rather than be taken as absences due to illness. The liability for compensated absences is recorded in

the government-wide and proprietary fund financial statements.

In the governmental fund financial statements, liabilities for compensated absences are accrued when they are "due and payable" and recorded in the fund only for employee resignations and retirements that occur before year-end and were paid out after year-end.

L. ENCUMBRANCES

Contracts and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. Upon receipt of goods or services, the encumbrance is liquidated and the expenditure and liability are recorded. Unliquidated encumbrances are reported in the Reserved for Encumbrances account as a component of fund equity for the governmental fund types.

M. FUND BALANCES

Fund balances for all governmental funds are either reserved or unreserved. Reserved fund balances reflect either 1) assets, which, by their nature, are not available for appropriations (Reserve for Inventories); 2) funds legally segregated for a specific future use (Reserve for Encumbrances); 3) segregated by legal restrictions (Reserve for Permanent Funds). Certain reserve accounts are further described below:

Reserved for Unexpended Appropriations: This account represents amounts of unexpended appropriations legally carried forward and available for encumbrances and expenditures in the succeeding year.

Reserved for Revenue Stabilization: RSA 9:13-e established the Revenue Stabilization account for the purpose of deficit reduction. As amended by Chapter 158:41, Laws of 2001, at the close of each fiscal biennium, any General Fund undesignated fund balance, remaining after Education Trust Fund transfer, is distributed to the Revenue Stabilization account. The maximum balance that may accumulate in the account is limited to 10% of the General Fund unrestricted revenue. The account may not be used for any other purpose without specific approval by two-thirds of each house of the Legislature and the Governor.

In the event of a General Fund undesignated fund balance deficit at the close of a fiscal biennium, a transfer from the Reserved for Revenue Stabilization account may be made only if the General Fund's unrestricted revenues are less than budgeted. The amount of the transfer is limited to the smaller of the General Fund undesignated fund balance deficit or the unrestricted revenue shortfall.

Per Chapter 177:122, Laws of 2005, the biennial transfer of surplus, if any, was suspended. Therefore, during fiscal year 2005 there were no transfers to or from the revenue stabilization account, therefore, the balance remained at \$17.3 million.

N. CAPITAL OUTLAYS

Capital outlays represent equipment purchases for all funds. In addition to equipment purchases, the Highway Fund's capital outlays represent expenditures for the 10-year state capital highway construction program.

O. BOND DISCOUNTS, PREMIUMS AND ISSUANCE COSTS

In the government-wide and proprietary fund financial statements, bond discounts/premiums and issuance costs are deferred and amortized over the term of the bonds using the

straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issue costs are reported as deferred charges.

In the fund financial statements, governmental fund types recognize bond discounts, premiums, and issuance costs in the period the bond proceeds are received. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as expenditures.

P. REVENUES AND EXPENDITURES/EXPENSES

In the government-wide Statement of Activities, revenues and expenses are segregated by activity (governmental or business-type), then further by function (e.g. general government, education, etc.). Additionally, revenues are classified between program and general revenues. Program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues, rather than as program revenue. General revenues include all taxes. Certain indirect costs are included in the program expenses reported for individual functions.

In the governmental fund financial statements, revenues are reported by source. For budgetary control purposes, revenues are further classified as either "general purpose" or "restricted". General purpose revenues are available to fund any activity accounted for in the fund. Restricted revenues are, either by state law or by outside restriction (e.g. federal grants), available only for specified purposes. Unused restricted revenues at year end are recorded as reservations of fund balance. When both general purpose and restricted funds are available for use, it is the state's policy to use restricted resources first.

In the governmental fund financial statements, expenditures are reported by character: "Current", "Debt Service" or "Capital Outlay." Current expenditures are subclassified by function and are for items such as salaries, grants, supplies and services. Debt service includes both interest and principal outlays related to bonds. Capital outlay includes expenditures for real property or infrastructure (e.g. highways).

Revenues and expenses of proprietary funds are classified as operating or nonoperating and are subclassified by object (e.g. administration and depreciation). Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as nonoperating.

Other Financing Sources (Uses) - these additions to and reductions from governmental resources in fund financial statements normally result from transfers from/to other funds and include financing provided by bond proceeds. Legally required transfers are reported when incurred as "Transfers In" by the receiving fund and as "Transfers Out" by the disbursing fund.

Reimbursements - Various departments charge fees on a user basis for such services as centralized data processing, accounting and auditing, purchasing, personnel, and maintenance and telecommunications. These transactions, when material, have been eliminated in the government-wide and governmental fund financial statements.

Q. INTERFUND ACTIVITY AND BALANCES

Interfund Activity - As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities (e.g. transfers of profits from the Liquor Commission to General Fund and the Sweepstakes Commission to the Education Fund) and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets (such as goods or cash) without equivalent flows of assets in return or a requirement for repayment. In addition, transfers are recorded when a fund receiving revenue provides it to the fund which expends the resources.

Interfund Balances - Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

R. CAPITAL PROJECTS

The state records the resources obtained and used for the acquisition, construction, or improvement of certain capital facilities in the Highway Fund and the Capital Projects Fund. Encumbrances are recorded when contracts are executed. Expenditures are recorded when incurred and encumbrances are liquidated at that time.

Resources obtained to finance capital projects include federal grants and general obligation bonds. General obligation bonds are recorded as liabilities and as other financing sources in the funds that receive the proceeds.

S. BUDGET CONTROL AND REPORTING

The Statutes of the State of New Hampshire require the Governor to submit a biennial budget to the Legislature for adoption. This budget, which includes a separate budget for each year of the biennium, consists of three parts: Part I is the Governor's program for meeting all expenditure needs and estimating revenues. There is no constitutional or statutory requirement that the Governor propose, or the Legislature adopt, a budget that does not resort to borrowing. Part II is a detailed breakdown of the budget at the department level for appropriations to meet the expenditure needs of the government. Part III consists of draft appropriation bills for the appropriations made in the proposed budget.

The operating budget is prepared principally on a modified cash basis and adopted for the governmental and proprietary funds, with the exception of the Capital Projects Fund. The Capital Projects Fund budget represents individual projects that extend over several fiscal years. Since the Capital Projects Fund comprises appropriations for multi-year projects, it is not included in the budget and actual comparisons statement. Fiduciary funds are not budgeted.

In addition to the enacted biennial operating budget, the Governor may submit to the Legislature supplemental budget requests necessary to meet expenditures during the current biennium. Appropriation transfers can be made within a department without the approval of the Legislature; therefore, the legal level of budgetary control is at the departmental level.

Both the Executive and Legislative Branches of government

maintain additional fiscal control procedures. The Executive Branch, represented by the Commissioner of the Department of Administrative Services, is directed to continually monitor the State's financial operations, needs, and resources, and to maintain an integrated financial accounting system. The Legislative Branch, represented by the Fiscal Committee, the Joint Legislative Capital Budget Overview Committee, and the Office of the Legislative Budget Assistant, monitors compliance with the budget and the effectiveness of budgeted programs.

Unexpended balances of appropriations at year end will lapse to undesignated fund balance and be available for future appropriations unless they have been encumbered or legally defined as non-lapsing, which means the balances are reported as reservation of fund balance. The balance of unexpended encumbrances are brought forward into the next fiscal year. Capital Projects Fund unencumbered appropriations lapse in two years unless extended or designated as non-lapsing by law.

Budget to Actual Comparisons and additional budgetary information are included as Required Supplementary Information.

T. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

GASB Statement 40, *Deposit and Investment Risk Disclosures-an amendment of GASB Statement No. 3* was implemented for the fiscal year ended June 30, 2005. As a result, the disclosures related to deposit and investment risks were changed.

PRIMARY GOVERNMENT

The state pools cash and investments except for separate cash and investment accounts maintained in accordance with legal restrictions. Each fund's equity share of the total pooled cash and investments and restricted assets is included on the combined balance sheet under the captions "Cash and Cash Equivalents" and "Investments".

DEPOSITS:

The following statutory requirements and Treasury Department policies have been adopted to minimize risk associated with deposits:

RSA 6:7 establishes the policy the state Treasurer must adhere to when depositing public monies. Operating funds are invested per investment policies that further define appropriate investment choices and constraints as they apply to those investment types.

Custodial Credit Risk: The custodial risk for deposits is the risk that in the event of a bank failure, the state's deposits may not be recovered.

Custodial credit risk is managed in a variety of ways. Although State law does not require deposits to be collateralized, the Treasurer does utilize such arrangements where prudent and/or cost effective. All banks, where the State has deposits and/or active accounts, are monitored as to their financial health through the services of Veribanc, Inc., a bank rating firm. In addition, ongoing reviews with officials of depository institutions are used to allow for frequent monitoring of custodial credit risk.

All depositories used by the state must be approved at least annually by the Governor and Executive Council. All commercial paper must be from issuers having an A1/P1 rating or better and an AA- or better long-term debt rating from one or more of the nationally recognized rating agencies. Certificates of deposits must be with state or federally chartered banking institutions with a branch in New Hampshire. The institution must have the highest rating as measured by Veribanc, Inc.

Whereas all payments made to the State are to be in U.S dollars, foreign currency risk is essentially nonexistent on State deposits.

As of June 30, 2005, the state's bank balances were exposed to custodial credit risk as follows:

(Amounts in thousands)

Type	Governmental & Business Type			Fiduciary		
	Insured	Collateral & held in State's name	Uncollateralized	Insured	Collateral & held in State's name	Uncollateralized
Demand Deposits	300	35,622	57,747	1,377	1,695	2,173
Money Market		30,314	176,573	86	-	19,983
Savings Accounts	100		267	1,515	3,528	-
CDs			25,109	68	32	-
Total	400	65,936	259,696	3,046	5,255	22,156

INVESTMENTS:

The Treasury Department has adopted policies to ensure reasonable rates of return on investments while minimizing risk factors. Approved investments are defined in statute (RSA 6:8, 387:6, 387:6-a, and 387:14). Additionally, investment guidelines exist for operating funds as well as trust and custodial funds. All investments are denominated in U.S. dollars. As of June 30, 2005, the state had the following types of investments:

(Fair values in thousands)		
Investment Type	Governmental & Business Type	Fiduciary
Repurchase agreements	100,519	
Stocks	23,558	
Corporate Bonds	2,400	26,395
US Treasury	10,701	33,497
US Government Agencies	9,183	9,413
US Government Investment Pools		329
Municipal Bonds		29,113
Equity Open Ended Mutual Funds	1,407	237,300
Fixed Income Open Ended Mutual Funds	10,878	2,148
Unemployment Compensation External Pool (special issue bonds guaranteed by US government)	262,233	
NH Public Deposit Investment External Pool (Investment in PDIP held by NHH permanent trust fund)	127	
NH Public Deposit Investment External Pool		243,211
Totals	421,006	581,406

The table below reconciles the cash and investments in the financial statements to the footnote.
(Amounts in thousands)

Reconciliation Between Financial Statements and Footnote						
		Unrestricted		Restricted		Total
		Cash and Equivalents	Investments	Cash and Equivalents	Investments	
Per Statement of Net Assets	Primary Government	\$ 646,440	\$ 37,293	\$ 18,000	\$ 23,528	\$ 725,261
Per Statement of Fiduciary Net Assets	Private Purpose	8,263	15,852			24,115
	Investment Trust		243,211			243,211
	Agency Funds	11,853	332,406			344,259
Total per Financial Statements		\$ 666,556	\$ 628,762	\$ 18,000	\$ 23,528	\$ 1,336,846
						Per Footnote
						Cash On Hand \$ 5,173
						Carrying Amount of Deposits 329,261
						Investments 1,002,412
						Total Per Footnote \$ 1,336,846

Repurchase Agreements:

Repurchase agreements must be executed through a New Hampshire or Massachusetts bank with assets in excess of \$500 million and has either the highest rating as measured by Veribanc, Inc. or has a long term debt rating of AA- or better as rated by Standard and Poor's and Fitch or Aa3 or better as rated by Moody's. Repurchase agreements may also be executed through any of the primary government security dealers as designated by the Federal Reserve.

Custodial Credit Risk: The state's repurchase agreements are all with banking institutions and therefore subject to custodial credit risk. The custodial credit risk is the risk that in the event of a bank failure, the state's deposits may not be recovered.

Interest rate risk: The Term Repurchase Agreements are also subject to interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the value of the state's investments. The state measures its interest rate risk using the weighted average maturity method (WAM). The state's WAM is dollar weighted in terms of years.

As of June 30, 2005, the states bank balances were exposed to custodial credit risk and interest rate risk as follows.
(Amounts in thousands)

Type	Governmental & Business Type	
	Custodial Credit Risk	Interest Rate Risk
	Collateralized & held in State's name	WAM
Overnight Repurchase Agreements	91,215	n/a
Term Repurchase Agreements	22,000	0.24
Total	113,215	

Stocks:

The State does not have a formal policy relative to operating funds and mitigation of concentration of credit risk. Although not issuer specific, individual investment guidelines for trust and custodial funds include overall asset allocation limits that are consistent with sound investment principles and practices.

Concentration Risk: The risk of loss attributed to the magnitude of the state's investment in a single issuer. As of June 30, 2005, the state's total stock investment is \$23.6 million. The top 10 issuers are noted below:
(Amounts in thousands):

Name / Issuer	Governmental & Business Type			
	General Fund			
	Aband. Property	Permanent Funds	Total	% of Total
Capital One Finl Corp	394		394	1.67%
General Elec Co	184		184	0.78%
Metlife Inc (1)	12,776	66	12,842	54.52%
Prudential Finl Inc	180		180	0.76%
Public Storage Inc	200		200	0.85%
TD Banknorth Inc	706		706	3.00%
Toronto Dominion Bk Ont	507		507	2.15%
US Bancorp Del	202		202	0.86%
Verizon Communications	247		247	1.05%
Vodafone Grp	565		565	2.40%

(1) The state holds Metlife Inc. securities as a result of shares forwarded to the state related to abandoned property.

Custodial Risk: The custodial risk for investments is the risk that, in the event of the failure of the counterparty to a transaction a government will not be able to recover the value of investments that are in the possession of an outside party. All the state's stocks are uninsured, registered in the state's name and held by the custodian. Custodial credit quality with respect to investments is mitigated primarily through selection criteria aimed at investing only with high quality institutions where default is extremely unlikely.

New Hampshire Public Deposit Investment Pool (NHPDIP):

The NHPDIP is an external investment pool with a balance at June 30, 2005 of \$243.2 million. This pool has been established, in accordance with RSA 383:22-24, for the purpose of investing funds of the state of New Hampshire, funds under the custody of all governmental units, pooled risk management programs established pursuant to RSA 5-B, agencies, authorities, commissions, boards, political subdivisions, and all other public units within, or instrumentalities of the state of New Hampshire. In accordance with

GAAP, the external portion of the NHPDIP is reported as an investment trust fund in the Fiduciary Funds using the economic resources measurement focus and accrual basis of accounting. During fiscal year 2005, the state did not have any operating investments in the pool. However, the New Hampshire Hospital Permanent Trust Fund had \$0.1 million invested in the pool. NHPDIP's audited financial statements can be obtained by contacting NHPDIP at 497 Belknap Mountain Rd, Gilford NH 03249.

Credit Risk: The risk that the issuer or other counterparty will not fulfill its obligations. Neither the equity mutual fund or PDIP are rated.

Debt Securities: The state invests in several types of debt securities including corporate and municipal bonds, securities issued by the US Treasury and Government Agencies, mutual funds and investment pools.

Credit Risk: The risk that the issuer will not fulfill its obligations. The state invests in grade securities which are defined as those with a grade B or higher. Obligations of the US Government or obligations explicitly guaranteed by the US Government are not considered to have credit risk.

Interest Rate Risk: The risk that changes in interest rates will adversely affect the fair value of the state's investments. Interest rate risk is primarily measured and monitored by defining or limiting the maturity of any investment or weighted average maturity of a group of investments. Fixed income mutual funds which consist of shares of funds which hold diversified portfolios of fixed income securities are limited to those with average maturity not to exceed 5 years. Trust and custodial funds manage and monitor interest rate risk primarily through a weighted average maturity approach (WAM). The state's WAM is dollar-weighted in terms of years. The specific target or limits of such maturity and percentage allocations are tailored to meet the investment objective(s) and defined in the investment guidelines associated with those funds.

Custodial Credit Risk: The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investments that are in the possession of an outside party. Open ended mutual funds and external pools are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The state's selection criteria is aimed at investing only with high quality institutions where default is extremely unlikely.

The state's exposed risks at June 30, 2005 are noted below.
(Amounts in thousands)

Type	Governmental & Business Type			Fiduciary		
	Credit Risk		Interest Rate Risk	Credit Risk		Interest Rate Risk
	Grade	Unrated	WAM	Grade	Unrated	WAM
Corporate Bonds	2,400		3.47	25,865	530	7.70
US Treasury	10,701		2.34	33,497		6.31
US Government Agencies	9,183		2.73	9,413		5.41
US Government Investment Pools					329	1.37
Municipal Bonds				29,113		12.00
Fixed Income Open Ended Mutual Funds		10,878	5.34		2,148	5.95
Unemployment Compensation Fund Pool (special issue bonds guaranteed by US govt)		262,233	2.20			

Debt Securities (continued):**Concentration Risk:**

The risk of loss attributed to the magnitude of the state's investment in a single issuer. This risk is applicable to the state's investments in corporate bonds. The State does not have a formal policy relative to operating funds and mitigation of concentration of credit risk. Although not issuer specific, individual investment guidelines for trust and custodial funds include overall asset allocation limits that are consistent with sound investment principles and practices.

The state's top ten issuers at June 30, 2005 are listed below:
(expressed in thousands)

Issuer	Governmental & Business Type	
	Fair Value	% of Total
Aflac Inc	\$ 108	4.51%
Bear Stearns Cos Inc	151	6.30%
Boeing Cap Corp	210	8.75%
Citigroup Inc	254	10.58%
Dow Chem Co	264	11.00%
FPL Group Cap Inc	111	4.62%
Goldman Sachs Group Inc	111	4.64%
Lehman Bros Hldgs Inc	114	4.75%
National City Bank Cleve	110	4.58%
SBC Communications Inc	108	4.52%
	Fiduciary	
Bank of America Corp	\$ 612	2.32%
Chevrontexaco Cap Co	990	3.75%
Citigroup Inc	662	2.51%
Credit Suisse First Boston USA	556	2.11%
General Electric Credit Corp	1,117	4.23%
Gillette Co	988	3.74%
Goldman Sachs Group Inc	1,299	4.92%
Verizon Global Fdg Corp	933	3.54%
Viacom Inc	733	2.78%
Wal Mart Stores Inc	682	2.58%

MAJOR COMPONENT UNIT (University System of New Hampshire)**Cash and Cash Equivalents (expressed in thousands):**

Highly liquid investments with a maturity of 90 days or less when purchased are recorded as cash and cash equivalents. Cash and cash equivalents at June 30 consisted of the following:

	2005
Cash & Repurchase agreements.....	\$ 36,740
Money Market Funds.....	51,977
Commercial Paper.....	7,106
Total Cash & Cash Equivalents.....	<u>\$ 95,823</u>

Included in the cash and repurchase agreements balances at June 30, 2005 were \$31,896 in repurchase agreements, \$9,021 in cash and a net cash overdraft of \$4,177. Commercial paper held as cash equivalents is uninsured and uncollateralized against custodial credit risk. Commercial paper had a weighted average maturity of 17 days at June 30, 2005. Repurchase agreements were limited to overnight investments only.

Investments (expressed in thousands):

Investments include operating investments, debt proceeds held by others for construction purposes, and endowment and similar investments. Investments are maintained with established financial institutions whose credit is reviewed by management and the respective governing boards of USNH and its affiliated entities. The carrying amount of these financial instruments approximates fair value.

Operating Investments:

Operating investments are amounts invested to meet regular operations of USNH and include obligations of the U.S. Government, commercial paper, and money market funds. Operating investments have an original maturity of more than 90 days, are highly liquid and are invested for purposes of satisfying current liabilities and generating investment income to support operating expenses. The components of operating investments at June 30 are summarized below:

	2005	
	Balance	Weighted Average Maturity
Commercial Paper.....	\$ 30,700	39 Days
Obligations of the U.S. Government.....	34,140	2 years
Corporate Bonds & Notes.....	4,622	5 Years
Other Accounts.....	22,549	Not Applicable
Total:.....	<u>\$ 92,011</u>	

Operating investments in commercial paper and mutual funds are uninsured and uncollateralized against custodial credit risk.

Debt Proceeds Held By Others for Construction Purposes:

At June 30, 2005 the debt proceeds held by others for construction purposes total represents \$6,537 of capital lease proceeds held in escrow not yet expended and \$41,003 of bond proceeds held by the bond trustee and not yet expended for construction projects. These investments were limited to guaranteed investment contracts invested in federal obligations, commercial paper and money market funds as of June 30, 2005. The weighted average maturity of the federal obligations and commercial paper investments was 224 days at June 30, 2005.

Endowment and Similar Investments:

Endowment and similar investments are amounts invested primarily for long-term appreciation and consisted of the following as of June 30:

	2005
Money Market Funds.....	\$ 13,159
Mutual Funds-Bonds.....	31,221
Mutual Funds-Stocks.....	50,580
Mutual Funds-Real Estate.....	4,725
U.S. Government Obligations.....	1,288
Common/Preferred Stocks.....	61,045
Alternative Investments.....	30,578
Investments Held by Others.....	18,632
Total:.....	<u>\$ 211,228</u>

The estimated fair value of investments is based on quoted market prices except for certain investments, primarily private equity partnerships, hedge funds and similar alternative investments, for which quoted market prices are not available. The estimated fair value of these investments is based on valuations provided by external investment managers within the past fiscal year, adjusted for cash receipts, cash disbursements and securities distributions through June 30. Because the alternative investments are not readily marketable, their estimated value may differ from the value that would have been used had a ready market for such investments existed.

Mutual funds, common stocks, and alternative investments are uninsured and uncollateralized against custodial credit risk. The endowment investment policies of the governing boards of USNH and its affiliated entities mitigate the risk associated with uninsured and uncollateralized investments collectively through diversification, target allocations and ongoing investment review.

3. RECEIVABLES

The following is a breakdown of receivables at June 30, 2005 (expressed in thousands):

	Governmental	Business- Type	Total	Major Component Unit
Short Term Receivables				
Taxes:				
Meals and Rooms.....	\$ 21,042		\$ 21,042	
Business Taxes.....	167,365		167,365	
Tobacco.....	6,626		6,626	
Estate and Legacy.....	1,000		1,000	
Real Estate Transfer.....	16,609		16,609	
Interest & Dividends.....	10,328		10,328	
Communications.....	6,800		6,800	
Utility Property Tax.....	11,400		11,400	
Gasoline Road Toll.....	11,889		11,889	
Beer.....		\$ 1,251	1,251	
Subtotal.....	253,059	1,251	254,310	
Other Receivables:				
Turnpike System.....		3,184	3,184	
Liquor Commission.....		5,353	5,353	
Lottery Commission.....		1,549	1,549	
Unemployment Trust Fund.....		20,990	20,990	
Internal Service Fund.....	362		362	
Board and Care.....	2,063		2,063	
Federal Grants.....	193,386		193,386	\$ 13,154
Local Grants.....	39,192		39,192	
Miscellaneous.....	62,689		62,689	18,057
Short Term Portion Of State Revolving Loan Fund.....	14,344		14,344	
Short Term Portion Of Note/Pledge Receivable.....				4,174
Subtotal.....	312,036	31,076	343,112	35,385
Total Current Receivables (Gross).....	565,095	32,327	597,422	35,385
Long Term Receivables				
State Revolving Loan Fund.....	217,508		217,508	
Miscellaneous.....	2,040		2,040	
Note/Pledge Receivable.....				22,300
Total Long Term Receivables (Gross).....	219,548		219,548	22,300
Allowance for Doubtful Accounts				
	(54,331)	(5,179)	(59,510)	(3,472)
Total Receivables (Net).....	\$ 730,312	\$ 27,148	\$ 757,460	\$ 54,213

State Revolving Loan Fund:

Primary Government: As of June 30, 2005, total water pollution control loans outstanding of \$231.8 million were recorded in the state's general fund. This amount was offset by a corresponding amount of deferred revenue. The state Water Pollution Control Revolving Loan Fund ("State Revolving Fund"), established by RSA 486:14, provides loans and other assistance to local communities for financing waste water treatment facilities. The State Revolving Fund was authorized through the Federal Clean Water Act of 1988 and was initially funded through a federal capitalization grant program to states which requires state matching funds equal to 20% of the capitalization grant funding. Principal and interest payments on the loans will occur over a period not to exceed 20 years and will be credited directly to the State Revolving Fund, enabling the fund balance to be available in perpetuity.

Major Component Unit: The component unit balance is University System of New Hampshire Perkins Loans and other college and university loans of \$54.2 million.

Deferred Revenue:

Primary Government: Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. As of June 30, 2005, the various components of deferred revenue (\$421.0 million) reported in the governmental funds were as follows:

	Unavailable	Unearned
Taxes & Fees receivable.....	\$ 123,039	
Loans receivable.....	270,067	\$ 2,041
Federal/Local receivables.....	3,573	4,907
Receipts in advance of eligibility requirements.....		17,364
Total.....	\$ 396,679	\$ 24,312

4. CAPITAL ASSETS

Capital Asset activity for the year ended June 30, 2005, was as follows (expressed in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets not being depreciated:				
Land & Land Improvements.....	\$ 329,739	\$ 41,184	\$ (233)	\$ 370,690
Construction in Progress.....	215,186	92,341	(56,565)	250,962
Work in Progress Computer Software.....	4,058	1,247	(547)	4,758
Total Capital Assets not being depreciated.....	548,983	134,772	(57,345)	626,410
Other Capital Assets:				
Equipment & Computer Software.....	159,037	11,466	(4,113)	166,390
Buildings & Building Improvements.....	493,059	84,757	(694)	577,122
Land Improvements.....	95,361	657		96,018
Infrastructure.....	2,531,841	545		2,532,386
Total Other Assets	3,279,298	97,425	(4,807)	3,371,916
Less accumulated depreciation for:				
Equipment & Computer Software.....	(112,750)	(20,617)	4,152	(129,215)
Buildings & Building Improvements.....	(238,685)	(16,179)	633	(254,231)
Land Improvements.....	(73,999)	(2,302)		(76,301)
Infrastructure.....	(1,545,949)	(36,085)		(1,582,034)
Total Accumulated Depreciation.....	(1,971,383)	(75,183)	4,785	(2,041,781)
Other Capital Assets, Net.....	1,307,915	22,242	(22)	1,330,135
Governmental Activities Capital Assets, Net.....	\$ 1,856,898	\$ 157,014	\$ (57,367)	\$ 1,956,545
Business-Type Activities:				
Turnpike:				
Capital Assets not being depreciated:				
Land & Land Improvements.....	\$ 99,934	\$ 4,656	\$ (2)	\$ 104,588
Construction in Progress.....	36,382	18,499	(7,712)	47,169
Work In Progress Computer Software.....	8,498		(8,498)	-
Capital Assets not being depreciated	144,814	23,155	(16,212)	151,757
Other Capital Assets:				
Equipment.....	15,235	15,718	(2,215)	28,738
Buildings & Building Improvements.....	4,828			4,828
Infrastructure.....	533,611	2,410		536,021
Total Capital Assets	698,488	41,283	(18,427)	721,344
Less accumulated depreciation for:				
Equipment.....	(14,253)	(1,693)	61	(15,885)
Buildings & Building Improvements.....	(2,527)	(75)		(2,602)
Infrastructure.....	(157,409)	(10,791)		(168,200)
Total Accumulated Depreciation.....	(174,189)	(12,559)	61	(186,687)
Turnpike Capital Assets, Net.....	\$ 524,299	\$ 28,724	\$ (18,366)	\$ 534,657
Liquor:				
Capital Assets not being depreciated:				
Land & Land Improvements.....	\$ 2,355			\$ 2,355
Other Capital Assets:				
Equipment.....	9,141	\$ 270	\$ (200)	9,211
Buildings & Building Improvements.....	17,905	1,418		19,323
Land Improvements.....	877			877
Total Capital Assets	30,278	1,688	(200)	31,766
Less accumulated depreciation for:				
Equipment.....	(7,430)	(819)	181	(8,068)
Buildings & Building Improvements.....	(8,188)	(618)		(8,806)
Land Improvements.....	(633)	(21)		(654)
Total Accumulated Depreciation.....	(16,251)	(1,458)	181	(17,528)
Liquor Capital Assets, Net.....	\$ 14,027	\$ 230	\$ (19)	\$ 14,238
Lottery Commission:				
Equipment.....	\$ 503	\$ 59	\$ (50)	\$ 512
Less Accumulated Depreciation for Equipment.....	(384)	(52)	51	(385)
Lotterys Capital Assets, Net.....	\$ 119	\$ 7	\$ 1	\$ 127

Current period depreciation expense was charged to functions of the primary government as follows (expressed in thousands):

Governmental Activities:	
General Government	\$ 5,985
Administraton of Justice and Public Protection	11,792
Resource Protection and Development	4,764
Transportation	41,919
Health and Social Services	8,346
Education	2,377
Total Governmental Activities Depreciation Expense	<u>\$ 75,183</u>

In accordance with GAAP, interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. In fiscal year 2005, net interest cost capitalized in the Turnpike System Enterprise Fund amounted to \$1.6 million (\$1.8 million interest expense offset by \$0.2 million interest income).

The state possesses certain capital assets that have not been capitalized and depreciated, these assets include works of art and historical treasures such as statues, monuments, paintings and miscellaneous capitol-related artifacts and furnishings. These collections meet all of the following criteria.

- A. Held for public exhibition, education, or research in furtherance of public service, rather than financial gain.
- B. Protected, kept unencumbered, cared for, and preserved.
- C. Subject to an organizational policy that required the proceeds from the sales of collection items to be used to acquire other items for the collection.

Major Component Unit: The following is a rollforward of Capital Assets for the University of New Hampshire, (Expressed in Thousands):

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements.....	\$ 10,117			\$ 10,117
Building and Building Improvements.....	765,021	\$ 31,065	\$ (301)	795,785
Equipment.....	117,619	12,599	(4,441)	125,777
Construction in Progress.....	37,206	43,681		80,887
Subtotal.....	\$ 929,963	\$ 87,345	\$ (4,742)	\$1,012,566
Less: Accumulated Depreciation.....	(396,082)	(32,672)	4,181	(424,573)
Total.....	\$ 533,881	\$ 54,673	\$ (561)	\$ 587,993

5. LONG TERM-DEBT

PRIMARY GOVERNMENT

Bonds Authorized and Unissued: Bonds authorized and unissued amounted to \$599.9 million at June 30, 2005. The proceeds of the bonds will be applied to the following funds when issued (expressed in thousands):

Capital Projects Fund	\$ 128,280
Turnpike System	471,650
Total	\$ 599,930

Turnpike System: The Legislature has established a 10-year highway construction and reconstruction plan for the Turnpike System to be funded from Turnpike revenues. This legislation also authorized the Governor and Executive Council to issue up to \$1.01 billion of bonds to support this project. Through June 30, 2005 the state has issued \$395 million of revenue bonds for this project.

Advance Refunding: The following is a summary of general obligation bonds and revenue bonds defeased by the primary government. The proceeds from each advance refunding issue were placed in an irrevocable trust to provide for all future debt service payments on the old bonds.

Accordingly, the trust account assets and the liability for the defeased bonds are not included in the state's financial statements (expressed in thousands):

Date of Advance Refunding	Amount Outstanding at June 30, 2005
Governmental Fund Types (General Obligation Bonds):	
December 11, 1998.....	17,145
August 1, 2002.....	14,910
Subtotal.....	32,055
Turnpike System (Revenue Bonds):	
January 1991.....	27,000
Total	\$ 59,055

Bond Issues: On December 10, 2004, the State issued \$60 million of general obligation capital improvement bonds. The interest rates of these 20-year bonds will be variable per the provisions of their auction rate security (ARS) features. These ARS Bonds are different from past bond issues in that these bonds carry an interest rate that will change every seven days through an auction process specified in the terms of the bonds. A portion of the proceeds from this issue was used to pay off \$50 million of bond anticipation notes which were outstanding at June 30, 2004.

On January 19, 2005, the state issued \$15 million of general obligation capital improvement bonds. The interest rates on these serial bonds range from 3.0% to 4.25%, and the maturity dates range from 2006 through 2025.

Also on January 19, 2005, the state issued \$42.8 million of taxable general obligation bonds to fund the unfunded accrued liability attributable to a newly established retirement plan for state judges pursuant to Chapter 311, Laws of 2003. The interest rates on these serial bonds range from 3.4% to 4.65%, and the maturity dates range from 2006 through 2015.

Changes in Long-Term Liabilities: The following is a summary of the changes in the long-term liabilities for bonds, compensated absences, and uninsured claims as reported by the primary government during the fiscal year (expressed in thousands):

Governmental Activities	Beginning Balance	Accretion	Increases	Decreases	Ending Balance	Current	Long-Term
General Obligation Bonds Payable.....	\$ 634,130	\$ 6,903	\$ 117,800	\$ 68,642	\$ 690,191	\$ 71,150	\$ 619,041
Bond Anticipation Notes.....	50,000			50,000	-		
Compensated Absences.....	60,911		42,505	42,146	61,270	16,413	44,857
Claims Payable.....	44,555		183,583	183,966	44,172	15,324	28,848
Catastrophic Medicaid Payments.....	14,500			14,500	-		-
Capital Lease.....	7,462			1,024	6,438	1,218	5,220
Total Governmental.....	\$ 811,558	\$ 6,903	\$ 343,888	\$ 360,278	\$ 802,071	\$ 104,105	\$ 697,966
Business-Type Activities							
Turnpike System							
General Obligation Bonds.....	\$ 14,362			\$ 3,567	\$ 10,795	\$ 3,682	\$ 7,113
Revenue Bonds.....	305,857			11,083	294,774	10,900	283,874
Claims & Compensated Absences Payable.....	3,163		\$ 927	1,079	3,011	1,371	1,640
Total.....	\$ 323,382		\$ 927	\$ 15,729	\$ 308,580	\$ 15,953	\$ 292,627
Liquor Commission							
Capital Lease.....	\$ 1,120		\$ 158	\$ 206	\$ 1,072	\$ 269	\$ 803
Claims & Compensated Absences Payable.....	3,128		1,125	1,523	2,730	904	1,826
Total.....	\$ 4,248		\$ 1,283	\$ 1,729	\$ 3,802	\$ 1,173	\$ 2,629
Lottery Commission							
Claims & Compensated Absences Payable.....	\$ 424		\$ 247	\$ 254	\$ 417	\$ 96	\$ 321
Total.....	\$ 424		\$ 247	\$ 254	\$ 417	\$ 96	\$ 321
Total Business-Type.....	\$ 328,054		\$ 2,457	\$ 17,712	\$ 312,799	\$ 17,222	\$ 295,577

Bond Anticipation Notes: The state issues bond anticipation notes in advance of issuing general obligation bonds. The proceeds are deposited into the capital fund to fund various capital outlay projects. At June 30, 2005, the state had no bond anticipation notes outstanding.

Capital Appreciation Bonds: Six of the state's general obligation capital improvement bonds issued since November 1990 represent capital appreciation bonds (College Savings Bond Program) with interest being accrued and compounded semiannually. At June 30, 2005, the cumulative interest accretion since issuance for all six capital appreciation bonds is approximately \$128.3 million. The interest is not paid until the bonds mature, at which time the expenditure will be recorded.

Debt Maturity: All bonds issued by the state, except for Turnpike revenue bonds, are general obligation bonds, which are backed by the full faith and credit of the state. Interest rates on these issues range from 2.0% to 7.2%. Debt service payments on "self-liquidating" debt are funded by reimbursements from component units for debt issued by the state on their behalf and through user fees and other revenues statutorily earmarked to fund debt service payments on specific projects. The anticipated source of repayment and annual maturities are as follows (expressed in thousands):

Payable June 30,	SOURCE OF PRINCIPAL PAYMENTS						DEBT SERVICE		
	Governmental Activities				Business-Type Activities		TOTAL ALL FUNDS		
	General Fund	Highway Fund	Self Liquidating	Total	Turnpike System		Principal	Interest	Total
					General Obligation	Revenue			
2006.....	\$ 60,242	\$ 4,941	\$ 5,967	\$ 71,150	\$ 3,682	\$ 10,900	\$ 85,732	\$ 39,947	\$ 125,679
2007.....	56,832	4,937	5,913	67,682	2,644	11,835	82,161	37,151	119,312
2008.....	55,537	4,604	5,856	65,997	1,509	12,130	79,636	34,060	113,696
2009.....	55,962	4,622	5,893	66,477	1,474	13,010	80,961	31,212	112,173
2010.....	52,251	4,406	5,559	62,216	624	13,310	76,150	28,196	104,346
2011-2015.....	176,788	12,281	19,428	208,497	584	83,025	292,106	101,646	393,752
2016-2020.....	99,437	5,994	7,130	112,561		88,675	201,236	50,861	252,097
2021-2025.....	52,633	2,724	3,242	58,599		44,095	102,694	16,498	119,192
2026-2030.....						21410	21410	2,716	24,126
Subtotal.....	\$ 609,682	\$ 44,509	\$ 58,988	\$ 713,179	\$ 10,517	\$ 298,390	\$ 1,022,086	\$ 342,287	\$ 1,364,373
Unamortized (Discount) / Premium	(13,584)	(2,746)	(1,381)	(17,711)	278	6,473	(10,960)		(10,960)
Unamortized Loss on Refunding	(5,277)			(5,277)		(10,089)	(15,366)		(15,366)
Total.....	\$ 590,821	\$ 41,763	\$ 57,607	\$ 690,191	\$ 10,795	\$ 294,774	\$ 995,760	\$ 342,287	\$ 1,338,047

MAJOR COMPONENT UNIT

Changes in Long-Term Liabilities: The University System of New Hampshire's long-term liabilities include: Revenue Bonds Payable of \$252.8 million; capital lease obligations of 23.2 million; due to primary government of \$3.1 million; accrued employee benefits and compensated absences of \$77.7 million; and other liabilities of \$19.0 million.

The following is a summary of the changes in the long-term liabilities as reported by the University of New Hampshire during the fiscal year (expressed in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance	Current	Long-Term
University System of NH.....	\$ 314,999	\$ 67,474	\$ 6,702	\$ 375,771	\$ 16,887	\$ 358,884

Payable June 30,	UNIVERSITY SYSTEM OF N.H.		
	Principal	Interest	Total
2006.....	\$ 6,151	\$ 14,364	\$ 20,515
2007.....	8,310	12,812	21,122
2008.....	8,717	12,428	21,145
2009.....	8,814	12,251	21,065
2010.....	8,587	11,632	20,219
2011-2015.....	47,148	52,187	99,335
2016-2020.....	57,583	39,572	97,155
2021-2025.....	56,544	24,849	81,393
2026-2030.....	37,215	14,012	51,227
2031-2035.....	40,370	4,513	44,883
Subtotal.....	279,439	198,620	478,059
Unamortized Discount....	(358)		(358)
Total.....	\$ 279,081	\$ 198,620	\$ 477,701

Debt Maturity: The table on the left is a summary of the annual principal payments and total debt service relating to the debt of the University of New Hampshire and includes revenue bonds, capital leases and amounts due to primary government (expressed in thousands):

6. RISK MANAGEMENT AND INSURANCE

The state is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health benefits; and natural disasters. The state primarily retains the risk of loss except where the provisions of law allow for the purchase of commercial insurance or where commercial insurance has been proven beneficial for the general public. There are approximately 30 such commercial insurance programs in effect, which include fleet automobile liability, ski area liability for Cannon Mountain, and a faithful performance position schedule bond. Settled claims under these insurance programs have not exceeded commercial insurance coverage in any of the last three years.

During fiscal year 2004, the state established an Employee Benefit Risk Management Fund, an internal service fund, to account for its uninsured risks of loss related to employee and retiree health benefits. Under this program, the Fund provides coverage for up

to a maximum of \$0.5 million for each employee per year. The state has purchased commercial insurance for claims in excess of coverage provided, as well as, aggregate stop loss liability coverage set at 125% of the state's total expected claims per contract year.

Claim liabilities not covered by commercial insurance are recorded when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The balance of claims liabilities is determined by an analysis of past, current, and future estimated loss experience. Because actual claims liabilities depend on such factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability may not result in an exact amount. Claims liabilities are evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

The following table presents the changes in claim liabilities during the fiscal year ending June 30, 2005 (expressed in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance	Current	Long-Term
Governmental Activities						
Workers Compensation Claims Payable.....	\$ 29,180	\$ 5,907	\$ 5,706	\$ 29,381	\$ 533	\$ 28,848
Health Claims Payable*.....	15,375	177,676	178,260	14,791	14,791	-
Total.....	\$ 44,555	\$ 183,583	\$ 183,966	\$ 44,172	\$ 15,324	\$ 28,848
Business-Type Activities						
Turnpike System						
Workers Compensation Claims Payable.....	\$ 2,305	\$ 534	\$ 485	\$ 2,354	\$ 1,195	\$ 1,159
Total.....	\$ 2,305	\$ 534	\$ 485	\$ 2,354	\$ 1,195	\$ 1,159
Liquor Commission						
Workers Compensation Claims Payable.....	\$ 1,336	\$ 72	\$ 283	\$ 1,125	\$ 474	\$ 651
Total.....	\$ 1,336	\$ 72	\$ 283	\$ 1,125	\$ 474	\$ 651
Lottery Commission						
Workers Compensation Claims Payable.....	\$ 57	\$ 2	\$ -	\$ 59	\$ -	\$ 59
Total.....	\$ 57	\$ 2	\$ -	\$ 59	\$ -	\$ 59
Total Business-Type.....	\$ 3,698	\$ 608	\$ 768	\$ 3,538	\$ 1,669	\$ 1,869

* Health Claims Payable is recorded in the Internal Service Fund

7. INTERFUND RECEIVABLES AND PAYABLES

Due From or To Other Funds for the primary government on the fund financial statements represent amounts related to year end transfers of surplus or profits between intragovernmental entities or funds and consist of the following as of June 30, 2005 (expressed in thousands):

RECEIVABLES / DUE FROM	AMOUNT	PAYABLES / DUE TO	AMOUNT
General Fund.....	\$ 22,500	Education Fund.....	\$ 22,500
General Fund.....	16,224	Non Major Fund.....	16,224
Lottery Commission.....	149	Education Fund.....	149
Liquor Commission.....	6,031	General Fund.....	6,031
Total.....	<u>\$ 44,904</u>	Total.....	<u>\$ 44,904</u>

The net due from or to other funds for the primary government has been reported as "internal balances" in the government-wide financial statements. The governmental payable of \$6.2 million to business-type activities represents the "internal balances" amount on the statement of net assets. The \$38.7 million between governmental funds has been eliminated on the government-wide financial statements.

Due from Component Units: As of June 30, 2005, the cumulative balance of outstanding loans plus accrued interest to the Pease Development Authority (PDA) amounted to \$35.1 million. The balance has been offset by a corresponding amount of deferred revenue in the General Fund Financial Statements.

The state has issued general obligation bonds to finance certain capital projects for the University System of New Hampshire (University System). As of June 30, 2005, the outstanding balance of these bonds was \$3.1 million. The state is reimbursed for the debt service payments from the University System as the payments are due. This receivable is classified as "Due from Component Units" and "Deferred Revenue" in the State's General Fund Financial Statements.

8. INTERFUND TRANSFERS

Interfund transfers during the current fiscal year were as follows (expressed in thousands):

Transferred To				
Transferred From	General Fund	Education Fund	Non-Major Funds	Total Governmental Fund
Governmental Funds				
General Fund.....		\$ 61,378	\$ 757	\$ 62,135
Education Fund.....	\$ 22,500			22,500
Highway Fund.....	838		838	1,676
Non-Major Funds.....				-
Total Governmental Funds.....	* 23,338	* 61,378	* 1,595	* 86,311
Proprietary - Enterprise Funds				
Liquor Commission.....	97,667			97,667
Lottery Commission.....	14	70,263		70,277
Total Proprietary - Enterprise Funds.....	\$ 97,681	\$ 70,263		\$ 167,944

*These Amounts have been eliminated within governmental activities on the government-wide financial statements.

The following transfers represent sources of funding identified through the state's operating budget:

- \$61.4 million appropriated from general fund to fund education, with \$22.5 million returned back to the general fund
- Transfer of Lottery Commission profits of \$70.3 million to fund education
- Transfer of Liquor Commission profits of \$97.7 million to general fund for government operations

Pursuant to RSA 260:60, \$1.7 million of unrefunded gas tax in the highway fund was transferred on a 50/50 basis to the general and fish & game funds.

9. UNDESIGNATED FUND BALANCE (DEFICIT) and CONTRACTUAL COMMITMENTS

Capital Projects Fund: The June 30, 2005, unreserved, undesignated deficit of the Capital Projects Fund was \$130.9 million. The Capital Projects Fund accounts for multi-year capital projects which will be primarily financed by bond proceeds. The project costs are appropriated when the project is approved. Bonds are issued as the expenditures are expected to be incurred. As of June 30, 2005, bonds authorized and unissued for the Capital Projects Fund amounted to \$128.3 million.

Contractual Commitments: The state has estimated its share of contractual obligations for construction contracts to be \$70.5 million at June 30, 2005. This represents total obligations of \$225.3 million less \$154.8 million in estimated federal aid.

10. EMPLOYEE BENEFIT PLANS

NEW HAMPSHIRE RETIREMENT SYSTEM

Plan Description: The New Hampshire Retirement System is the administrator of a cost-sharing multiple-employer Public Employee Retirement System (The Plan) established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401 (a) and 501 (a) of the Internal Revenue Code. The Plan is a contributory defined-benefit plan providing service, disability, death, and vested retirement benefits to members and beneficiaries. The Plan covers substantially all full-time state employees, public school teachers and administrators, permanent firefighters, and police officers within the state of New Hampshire. Full-time employees of political subdivisions, including counties, municipalities, and school districts, are also eligible to participate as a group if the governing body of the political subdivision has elected participation. The Plan is divided into two membership groups. Group I consists of state and local employees and teachers. Group II consists of firefighters and police officers. All assets are in a single trust and are available to pay retirement benefits to all members.

Group I members at age 60 qualify for a normal service retirement allowance based on years of creditable service and average final compensation (AFC). The yearly pension amount is $1/60$ (1.67%) of average final compensation multiplied by years of creditable service. AFC is defined as the average of the three highest salary years. At age 65, the yearly pension amount is recalculated at $1/66$ (1.5%) of AFC multiplied by years of creditable service. Members in service with 10 or more years creditable service who are between age 50 and 60 or members in service with at least 20 or more years of service, whose combination of age and service is 70 or more, are entitled to a retirement allowance with appropriate graduated reduction based on years of creditable service.

Group II members who are age 60, or members who are at least age 45 with at least 20 years of creditable service can receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years.

Members of both groups may qualify for vested deferred allowances, disability allowances, and death benefit allowances subject to meeting various eligibility requirements. Benefits are based on AFC or earnable compensation, service, or both.

Pursuant to RSA 100-A:52, the New Hampshire Retirement System also provides a postretirement medical premium subsidy for Group I employees and teachers and Group II police officers and firefighters.

A special account has been established by RSA 100-A:16, II(h) for additional benefits. The account is credited with all of the earnings of the account assets in the account plus the earnings of the remaining assets of the plan in excess of the assumed rate of return plus $1/2$ of 1 percent.

Prior to 2005, the New Hampshire Retirement System issued publicly available financial reports that could be obtained by writing to them at 54 Regional Drive, Concord, NH 03301-8509 or from their web site at <http://www.nhrs.org>. This component unit has not been presented in the fiduciary funds due to the ongoing audit of their fiscal 2005 financial statements. The release date of New Hampshire Retirement System audited financial statements is unknown as of the date of this report.

Funding Policy: The Plan is financed by contributions from the members, the state and local employers, and investment earnings. In fiscal year 2005, by statute, Group I members contributed 5.0% of gross earnings. Group II members contributed 9.3% of gross earnings. Employer contributions required to cover that amount of cost not met by the members' contributions are determined by a biennial actuarial valuation by the system's actuary using the open group aggregate funding method and are expressed as a percentage of gross payroll. The state's share represents 100% of the employer cost for all state employees, and 35% of the employer cost for teachers, firefighters, and police officers employed by political subdivisions. The state does not participate in funding the employer cost of other political subdivision employees.

The state's contributions to the plan for the years ending June 30, 2005, 2004, and 2003 were \$59.7 million, \$55.4 million, and \$39.0 million, respectively, which equals the required contributions for each year. The state's contributions for the fiscal years ending June 30, 2005 and June 30, 2004 increased substantially over the amounts contributed for the fiscal year ended June 30, 2003 due to the weak investment performance of the Plan during fiscal years 2001 through 2003.

HEALTH CARE INSURANCE FOR RETIRED EMPLOYEES

In addition to providing pension benefits, RSA 21-I:30 specifies that the state provide certain health care insurance benefits for retired employees. These benefits include group hospitalization, hospital medical care, and surgical care. Substantially all of the state's employees who were hired on or before June 30, 2003 may become eligible for these benefits if they reach normal retirement age while working for the state and receive their pensions on a periodic basis rather than a lump sum. During fiscal year 2004, legislation was passed that requires state Group I employees hired on or after July 1, 2003 to have 20 years of state service in order to qualify for health insurance benefits. These and similar benefits for active employees are authorized by RSA 21-I:30 and provided through the Employee Benefit Risk Management Fund, which is the state's self-insurance fund implemented in October 2003 for active state employees and retirees. The state recognizes the cost of providing benefits by paying actuarially determined insurance contributions into the fund. The state paid approximately \$42.9 million of insurance contributions for approximately 8,200 state retirees and covered dependents receiving a periodic pension benefit for the fiscal year ended June 30, 2005. An additional major source of funding for retiree benefits is from the New Hampshire Retirement System's medical premium subsidy program for Group I and Group II employees, which totaled approximately \$13.5 million for the fiscal year ended June 30, 2005.

JUDICIAL RETIREMENT PLAN

Chapter 311 of the Laws of 2003 established a contributory defined benefit judicial retirement plan for state judges. The chapter appropriated \$42.8 million to the board of trustees of the newly established judicial retirement system, which amount is to be used for the payment of the unfunded accrued liability attributable to the judicial retirement system. The chapter further authorized the issuance of bonds by the state to fund this payment. The bonds shall have a term not later than 30 years from the date of issue. The chapter further provides that the provisions regarding appropriation for the unfunded liability and the issuance of bonds shall be implemented beginning on the later of July 1, 2004 or 180 days after the system receives a favorable determination from the Internal Revenue Service as to the tax qualified nature of the plan under the Internal Revenue Code. On January 19, 2005, the state issued \$47.8 million of general obligation bonds, in accordance with chapter 311.

COMPONENT UNITS

Eligible employees of the New Hampshire Retirement System and the Pease Development Authority participate in the NHRS. Employees of the New Hampshire Community Development Finance Authority, the Business Finance Authority, and the University System of New Hampshire are not members of the NHRS, but participate in their own defined contribution plans.

11. CONTINGENT AND LIMITED LIABILITIES

PRIMARY GOVERNMENT

Contingent Liabilities: The state of New Hampshire is contingently liable, within statutory legal limits, for bonds sold by municipalities, school districts, and for first mortgages on industrial and recreational property that contain the guarantee of the state of New Hampshire. The following table shows the composition of the state's \$127.8 million of contingent liabilities and the statutory limits as of June 30, 2005 (expressed in thousands):

	RSA	Guarantee Limit	Remaining Capacity	June 30, 2005			June 30, 2004
				PRINCIPAL	INTEREST	TOTAL	TOTAL
Water Pollution Bonds.....	485-A:7	\$ 175,000	\$ 136,046	\$ 31,439	\$ 7,515	\$ 38,954	\$ 48,402
Business Finance Authority (BFA) - General Obligation.....	162-A:17	25,000	**	20,000	10,773	30,773	
Business Finance Authority (BFA) - Additional State Guarantee.....	162-I:9-b	50,000	**	29,473	240	29,713	
Business Finance Authority (BFA) - Unified Contingent Credit Limit.....	162-A:22	95,000	*	49,473	11,013	60,486	65,197
School Construction Bonds.....	195-C:2	95,000	67,204	19,705	8,091	27,796	33,164
Solid Waste Bonds.....	149-M:31	30,000	29,398	475	127	602	693
Super Fund Site Cleanup Bonds.....	33-3-f	50,000	*				
Water Resources Council Bonds.....	481:19	5,000	5,000				
Housing Finance Authority Child Care Loans.....	204-C:79	300	300				
TOTALS.....		\$ 450,300	\$ 322,462	\$ 101,092	\$ 26,746	\$ 127,838	\$ 147,456

*Plus Interest

**Plus interest (guarantee limit under this section is included in and also limited by RSA 162-A:22)

Limited Liabilities with the Pease Development Authority (PDA):

The state has statutory authority to guarantee bonds issued by the PDA, within certain limits, and advance money to the PDA, through both interest and non-interest bearing loans. In addition, RSA 12-G:17 authorizes the issuance of up to \$250.0 million in bonds backed solely by the credit of the PDA. The table below highlights the legal limits of state guarantees and loans relative to the PDA as of June 30, 2005 (expressed in thousands):

	(1) RSA 12-G:31	(2) RSA 12-G:34	(3) RSA 12-G:33	(4) RSA 12-G:35	Non-Statutory
Legal Limit	50,000	5,000	35,000	10,000	No Limit
Debt Guaranteed Now Assumed by State					
Business Express Airlines.....	10,000				
Atlantic Coast Airlines.....	1,000				
Amount Bonded By State and Loaned to PDA					
Operating Budget FY92 (V161).....	2,800				
Operating Budget FY93 (V161).....	3,800				
Operating Budget FY93 (V165).....	1,000				
Matching Grants Econ. Dev. (V165).....		5,000			
Lonza (Celltech).....	29,990				
Amount Advanced to PDA					
Operating Budget FY94.....					400
Operating Budget FY95.....					1,900
Operating Budget FY96.....					1,948
Operating Budget FY97.....					1,572
Remaining Capacity	1,410		35,000	10,000	N/A

(1) RSA 12-G:31 - \$50 million in bonds may be guaranteed by the state for airport projects or the state can make loans by issuing bonds.

(2) RSA 12-G:34 - \$5 million in bonds may be issued and loaned to provide matching grants for FAA and EDA grants.

(3) RSA 12-G:33 - \$35 million in bonds may be guaranteed by the state to develop a research district.

(4) RSA 12-G:35 - \$10 million in bonds may be issued and loaned to provide matching to private grants for development of research district.

PDA: The state loaned PDA the proceeds from bond issues V161 (\$6.6 million) and V165 (\$6.0 million). Currently, the state pays the debt service payments for the bond issues and when funds are available PDA will repay the state. As of June 30, 2005, \$2.4 million has been paid by the PDA to the state against these bonds. Total principal and interest due at maturity owed by PDA, for these two bonds, is \$20.5 million.

Semiannually, PDA makes payments to the state for the Lonza (Celltech) loans and the state pays the debt service payments. The amount outstanding as of June 30, 2005 relative to the Lonza (Celltech) loans is \$25.5 million (representing principal \$19.1 million and interest \$6.4 million).

Federal Grants: The state receives federal grants, which are subject to review and audit by the grantor agencies. Access to these resources is generally conditional upon compliance with terms and conditions of grant agreements and applicable regulations, including expenditure of resources for allowable purposes. Any disallowances resulting from the audit may become the liability of the state. The state estimates that the ultimate disallowance pertaining to these grants, if any, will be immaterial to its overall financial condition.

12. LEASE COMMITMENTS**OPERATING LEASES**

The state has lease commitments for space requirements which are accounted for as operating leases. These leases, subject to continuing appropriation, extend forward a number of years and may contain rent escalation clauses and renewal options. Rent expenditures for fiscal year 2005 for governmental activities and business-type activities were approximately \$12.4 million and \$2.5 million, respectively. The following is a schedule of future minimum rental payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of June 30, 2005 (expressed in thousands):

Payable June 30,	Governmental Activities	Business-Type Activities
2006.....	\$ 6,457	\$ 1,634
2007.....	4,874	1,237
2008.....	2,923	891
2009.....	2,062	166
2010.....	1,336	51
2011-2015.....	3,250	24
Total.....	\$ 20,902	\$ 4,003

CAPITAL LEASES

The state has entered into lease agreements as lessee for financing the acquisition of buildings and equipment. These leases qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments. The future minimum lease payments and the net present value of those payments at June 30, 2005, are as follows (in thousands):

Payable June 30,	Governmental Activities	Business-Type Activities
2006.....	\$ 1,218	\$ 269
2007.....	1,207	269
2008.....	1,104	155
2009.....	643	141
2010.....	555	141
2011-2015.....	2,213	250
2016-2020.....	1,043	
2021-2025.....	142	
Total.....	8,125	1,225
Amount Representing Interest.....	(1,687)	(153)
Present Value of Minimum Lease Payments.....	\$ 6,438	\$ 1,072

The assets acquired through capital leases and included in capital assets at June 30, 2005 include the following (in thousands):

	Governmental Activities	Business-Type Activities
Equipment.....	\$ 3,964	\$ 563
Buildings & Building Improvements.....	9,285	1,129
Total.....	13,249	1,692
Less: Accumulated Depreciation.....	(8,768)	(878)
Net.....	\$ 4,481	\$ 814

13. LITIGATION*Claremont School District, et. al. v. Governor, et. al.*

For the last several years, the state has been involved in ongoing litigation initiated against the state by five school districts who challenged the constitutionality of the state's statutory system of financing the operation of elementary and secondary public schools primarily through local property taxes. On December 17, 1997, the New Hampshire Supreme Court ruled in favor of the Plaintiffs and found that property taxes in support of education are state taxes and that such taxes must be proportional and reasonable throughout the state, and that the current system failed to meet this standard. The Supreme Court further held that a constitutionally adequate public education is a fundamental right, and that the legislative and executive branches must develop and adopt specific criteria implementing appropriate guidelines for such an education.

During the 1998 session, the legislature passed a law defining the components of what constitutes an adequate education and further established commissions to study the costs of providing a constitutionally adequate education and special education. These commissions issued reports in December 1998. The 1998 legislative session also produced a law requiring a comprehensive study of the school facilities statewide. This study was commenced in 1999, was completed by July 1, 2000 and was reported to the legislature on September 1, 2000.

During the 1999 session, the legislature produced a law that determined the cost of an adequate education for the biennium beginning July 1, 1999, and committed to the expenditure of that amount of money. Also included in this law were two study commissions: one charged with reviewing New Hampshire's tax structure and the other with reviewing the costs of an adequate education and special education, and the delivery of an adequate education.

In August 1999, the Plaintiffs filed motions in the Supreme Court, which retains jurisdiction in this matter, challenging various aspects of the new system. In mid-October, the Supreme Court struck down the statewide property tax included in the state's funding plan. The Court held that the phase-in of the tax in so-called "donor" communities was unconstitutional. The Court held that all of the Plaintiffs' other claims were premature and dismissed them without prejudice. In November, the legislature re-enacted the statewide property tax without the phase-in.

During the 2001 legislative session, several school funding bills and some accountability bills were vigorously debated by the legislature. An accountability bill was passed by the legislature but the Governor vetoed it. A school funding bill was also passed which essentially makes the current system permanent by removing the sunset clauses on the current methodology for calculating the per pupil cost and on the Uniform Education Property Tax.

On August 2001, the Claremont Plaintiffs filed a motion in the Supreme Court challenging the adequacy of the state's compliance with the Court's prior rulings and seeking an Order requiring the legislature to enact a new school funding system by June 3, 2002. The Attorney General's Office filed an objection to the Plaintiffs' motion on October 5, 2001, and has asked the Court to close the case. On December 4, 2001 the Supreme Court issued an Order dismissing some of the Plaintiffs' claims without prejudice to be brought in the Superior Court and allowing further briefing by each side and oral argument on the issue of whether it should invoke its continuing jurisdiction to determine if the state had defined an adequate education.

On January 7, 2002, the Supreme Court issued an Order invoking its continuing jurisdiction and requesting briefs on the issues of whether standards of accountability must be established by the state to meet its constitutional requirement of providing an adequate education and whether the existing system satisfies this obligation. On April 11, 2002, the Supreme Court issued a Decision holding that accountability is an essential component of the state's duty to provide an adequate education and finding that the existing statutory system has deficiencies that are inconsistent with the state's duty. The Court found that the state has not provided a sufficient mechanism to require that school districts actually provide an adequate education. The Court held that the state needs to do more work to fulfill its duty and to incorporate meaningful accountability in the education system. No time line was established in the Decision under which the executive and legislative branches must create standards of accountability.

Accountability, as well as education funding, was debated during the 2003 legislative session. The legislature passed two bills, House Bill 608 ("HB 608") and House Bill 139 ("139"). HB 608 uses the existing school funding system for fiscal year 2004 but increases the adequacy payment by the Consumer Price Index instead of doing the recalculation of the base cost of adequacy previously required in RSA 198:40. For fiscal year 2005, HB 608 establishes a new funding system based on each municipality's tax base in proportion to its local education costs. HB 608 provides for targeted aid and enhanced aid to municipalities that have below the state's average tax base per pupil. The amount of aid that a municipality receives is based on what each municipality's proportion is compared to the state's average tax base per pupil.

HB 139 establishes an accountability system that meets not only the Supreme Court's Decision in *Claremont* but also the federal requirements of No Child Left Behind. HB 139 provides performance goals that must be met in order to show adequate yearly progress and establishes a notification process to schools and communities when certain schools are not making adequate yearly progress. HB 139 also creates a corrective action process to assist schools that are not meeting adequate yearly progress goals. This corrective action process includes, as its last step, the requirement that the Department of Education develop a corrective action plan for any school district that does not develop an adequate plan for approval by the State Board of Education which will then order the school district to implement that corrective action plan.

At this time, there is no existing or threatened litigation against the state relating to the *Claremont* case.

Donald Stevens v. Town of Rye and State; 100 Market Group v. City of Portsmouth and State; Worth Development Corporation v. City of Portsmouth and State; Gail Nadeau v. City of Portsmouth and State of New Hampshire

These 4 cases, encompassing 33 properties, all challenge the constitutionality of the statewide education property tax. Petitioners are all property taxpayers in Portsmouth or Rye. They allege that the assessing practices of the state are not uniform enough to ensure the constitutionally required proportionality necessary for allocating the statewide property tax between individual taxpayers in different communities. Discovery occurred throughout early 2005 and ended with the state filing a motion to dismiss the cases. The Superior Court took the motion under advisement and proceeded with a 4 day trial from August 29, 2005 to September 1, 2005. The state vigorously defended the property tax system and showed the substantial improvements

made to the system since the last constitutional challenge in 2000. Post-trial memoranda were filed and the Court issued two orders in November 2005, finding the property tax system unconstitutional for tax years 2002 through 2004. The State filed a timely appeal with the New Hampshire Supreme Court which was accepted. The appeal does not have a briefing schedule at this time but will likely be briefed and argued during the early summer 2006. The likelihood of success on the appeal is difficult to determine at this time. The potential exposure is less than \$250,000 with respect to the specific properties at issue in this case and the Superior Court's order was limited to only the named Petitioners. However, the statewide property tax raised approximately \$371 million in fiscal 2005. If the order declaring the statewide property tax unconstitutional is upheld by the Supreme Court, the state will need to correct the property tax assessment system.

City of Nashua v. State; and Londonderry School District v. State

In 2005, the State enacted House Bill 616, now known as 2005 New Hampshire Laws Chapter 257, as the current education funding bill. Chapter 257 provides funding to schools based on four types of aid and revenue from the statewide enhanced education tax. Chapter 257 does not generally provide aid to municipalities on a per pupil basis. The four types of aid are: local tax capacity aid, targeted per pupil aid, statewide enhanced education tax capacity aid, and transition grants. Chapter 257 also includes the statewide enhanced education tax which is assessed at a uniform rate across the State necessary to raise \$363 million. For fiscal year 2006, the total State education aid under Chapter 257 is more than \$819 million.

Two lawsuits were filed challenging the constitutionality of Chapter 257. The first is *City of Nashua v. State*, Docket No. 05-E-257, and the second is *Londonderry School District, et al. v. State*, Docket No. 05-E-406. Both of these suits were filed in August, 2005 in the Supreme Court and both were dismissed from the Supreme Court. Both suits were refiled in Hillsborough County Superior Court, Southern District.

Nashua's Petition includes four general claims: 1) a challenge to Chapter 257 for not providing for an adequate education by failing to "relate the taxes raised by it to the cost of an adequate education," 2) a claim that Chapter 257's transition grants create disproportional and unequal taxes, 3) a claim challenging Chapter 257's "reliance upon three-year old data to fund the cost of an adequate education today," and 4) a claim questioning whether Chapter 257 requires the use of data from April, 2003 for 'Equalized Valuation With Utilities' in order to correctly calculate the education grants under Chapter 257.

Londonderry's Petition includes the following four general claims: 1) a claim that Chapter 257 fails to define an adequate education and establish an accountability system, 2) a claim that targeting aid to some municipalities has imposed on many of the remaining municipalities the burden of funding education through a local education tax, 3) a claim which asserts that Chapter 257 violates Part II, Article 5 because it results in property taxes that are not "proportional across the State" due to the transition grants, and 4) an equal protection claim.

The Nashua case was tried in mid-December 2005. The Londonderry case proceeded with a motion for summary judgment filed in January, 2006, with the State filing a timely response in February, 2006. On March 8, 2006, the Superior Court

issued orders in both cases declaring Chapter 257 unconstitutional due to the State's failure to reasonably determine the cost of an adequate education. The superior Court also found that the State has not defined an adequate education and has not enacted a constitutional accountability system.

The State is filing an assented-to motion to stay the effect of the orders pending a final decision by the Supreme Court. The State filed timely appeals of these orders with the New Hampshire Supreme Court on April 7, 2006.

The likelihood of success on appeal is difficult to determine at this time. If the orders declaring the education funding system and the education delivery system are upheld by the Supreme Court, the State will need to correct these decisions and enact new laws.

General Electric v. Department of Revenue Administration

This is an appeal by General Electric from a decision by the Department of Revenue Administration. In this appeal, GE claims that the dividends received deduction allowed under RSA 77-A:4, IV should be invalidated because the statute discriminates against the foreign commerce in violation of the commerce clause of the United States Constitution and results in unfair taxation out of proportion to GE's activities in New Hampshire in violation of the Due Process and Commerce Clauses of the U.S. Constitution.

By way of background, in 2001, GE and the Department executed two settlement agreements substantially resolving GE's business profit tax liability for multiple tax years. The settlement agreements did not resolve the foreign dividend issue, which is the issue in this appeal, concerning tax years 1990-1999.

On August 19, 2005 the court issued an order granting the Department's motion to dismiss and the Department's motion for summary judgment. The Plaintiff has appealed to the New Hampshire Supreme Court. The parties have filed briefs and are waiting for oral argument to be scheduled. If the issue is resolved in GE's favor, the state would be required to refund \$3 million to GE. The State could face other potential losses if other taxpayers challenge the statute. It is not possible to predict the outcome of this case at this time.

Cassandra Hawkins v. Commissioner of the Department of Health and Human Services

This suit was filed as a class action lawsuit brought under 42 U.S.C. 1983 challenging the provisions of dental services to Medicaid recipients under the age of 21. The named plaintiffs, parents of children who are eligible, alleged the state had violated their rights under the federal Medicaid Act, 42 U.S.C. 1396a, the federal constitution, and state law by failing to provide their children with access to adequate dental care. On August 28, 2003, a Consent Decree was filed with the Federal District Court for preliminary review. The Class was certified and the Decree was approved and entered as a Court Order on January 26, 2004. In brief, the terms provide that the state allocate \$1.2 million per year for FY 2004 and 2005, in additional state funds to the EPSDT dental program. The state shall invest those funds in, among other things, developing a dental safety-net and in raising the dental rates. The state also agreed to pay Plaintiff's attorney fees, which was resolved in June 2005. The fiscal impact of any inability to meet Decree requirements, if any, is not possible to predict at this time.

Oracle Corporation v. Department of Revenue

This is an appeal by Oracle from a decision by the Department of Revenue. Oracle appeals the Department's assessment of over \$7 million in business profits taxes, interest, and penalties, arising out of an audit of Oracle for the tax years 1999 and 2000. There are a number of issues in the case, but the primary issue is whether capital gains Oracle received on the sale of stock in two of its subsidiaries constitute unitary income to Oracle for NH business profits tax purposes. It is not possible to predict the outcome of this case at this time.

OTHER LITIGATION

The state, its agencies and employees are defendants in numerous other lawsuits. Although the Attorney General is unable to predict the ultimate outcome of these suits, in the opinion of the Attorney General and the Commissioner of Administrative Services, the likelihood of such litigation resulting, either individually or in the aggregate, in final judgments against the state, which would materially affect its financial position, is remote. Accordingly, no provision for such ultimate liability, if any, has been made in the financial statements.

14. HIGHWAY FUND EQUITY

The highway fund is comprised of two accounts, an operating account and capital account. The capital account is comprised of four main construction accounts (federal construction aid, state aid, municipal bridge and betterment). The operating account represents the total highway fund less the capital account activities. Except for the betterment account, cash raised from current year revenue transactions, such as gasoline road toll, licenses, fees, etc, are maintained in the operating account and transferred to the capital accounts on demand as cash is needed to fund current year costs. By law, the betterment account receives a cash transfer each month, representing 88% of 3 cents of the gasoline road toll tax.

The unreserved surplus (deficit) for the capital and operating accounts and the total highway fund, at June 30, 2005 were as follows:

	Capital Account	Operating Account	Total Highway Fund
Unreserved Surplus/(Deficit)	\$ (76.2)	\$ 83.1	\$ 6.9

The deficit in the capital account at June 30, 2005 exists primarily because funds are appropriated from the current year fund balance for multi-year highway construction projects. Although the state will receive reimbursements from federal and local sources in future years, after the actual cash disbursements have occurred, the total project cost is a charge against the fund balance at the time the project is approved.

The surplus in the operating account at June 30, 2005 was \$83.1 million. Future projects, where no contract has been encumbered, are not yet a charge against surplus. The surplus balance therefore, remains in the operating account ready to be used when anticipated project plans are converted to specific contracts, which will be approved and appropriated in future fiscal years.

15. JOINT VENTURES-LOTTERY COMMISSION

The New Hampshire Lottery Commission is an active participant in two separate joint venture arrangements: the Tri-State Lotto Commission (Tri-State) and the Multi-State Lottery Association (MUSL).

In September 1985, Tri-State was established whereby the New Hampshire Lottery Commission (Lottery) entered into a joint venture with the lotteries of the states of Maine and Vermont to promulgate rules and regulations regarding the conduct of lottery games and the licensing of agents. In addition, each state contributes services towards the management and advisory functions. Each state share of revenues, expenses and interest income is based on their respective share of sales except for direct charges such as advertising, vendor fees and per-diem payments. Prizes awarded under Tri-State games are fully funded by deposit fund contracts and investments held by Tri-State. Accordingly, the Lottery does not record a liability for jackpot awards which are payable in installments from funds provided by Tri-State. For the year ended June 30, 2005, the Lottery recognized \$9.2 million of net income from Tri-State. In addition, Tri-State has established a Designated Prize Reserve, which acts as a contingency to protect Tri-State against unforeseen liabilities. The Lottery's share of deposits held as Tri-State prize reserves was \$1.5 million at June 30, 2005.

In November 1995, the Lottery became a member of MUSL, which is currently comprised of 29 member state lotteries and administers the Multi-State Lottery Powerball and Hot Lotto games. Each state lottery sells tickets, collects revenues and remits prize funds to MUSL net of lower tier prize awards. Each member also pays for a share of MUSL's operating expenses based upon the members proportionate share of game sales. Jackpot prizes that are payable in installments are satisfied through investments purchased by MUSL. Accordingly, the Lottery does not record a liability for jackpot awards which are payable in installments from funds provided by MUSL. For the year ended June 30, 2005, the Lottery recognized \$18.7 million of net income from MUSL. In addition, MUSL has established a contingency reserve to protect MUSL and its members against unforeseen liabilities.

16. RESTATEMENT OF JUNE 30, 2004 LOTTERY COMMISSION NET ASSETS

The net assets of the Lottery Commission (Lottery) at June 30, 2004 has been increased by \$1.5 million to record restricted deposits held by the Tri-State Commission (Tri-State) not previously presented. The restatement represents cumulative amounts that had previously been reported as expense by the Lottery since the inception of its participation in Tri-State.

17. SUBSEQUENT EVENT

On December 6, 2005, the state issued \$75.0 million of general obligation bonds. The interest rates on these serial bonds range from 4.0% to 4.25%, and the maturity dates range from 2007 through 2025.

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Required Supplementary Information Budgetary Schedules

STATE OF NEW HAMPSHIRE
BUDGET TO ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

General Fund				
	Budgeted Amount		ACTUAL	Variance with Final Budget- Positive (Negative)
	ORIGINAL	FINAL	(Budgetary Basis)	
REVENUES				
General Property Taxes.....	\$ 1,021	\$ 1,021	\$ 872	\$ (149)
Special Taxes.....	909,342	909,823	976,625	66,802
Personal Taxes.....	67,485	67,485	73,146	5,661
Business License Taxes.....	20,610	20,610	10,672	(9,938)
Non-Business License Taxes.....	91,190	91,190	92,153	963
Fees.....	139,797	141,213	110,223	(30,990)
Fines, Penalties and Interest.....	26,646	26,678	23,823	(2,855)
Grants from Federal Government.....	1,405,628	1,568,247	1,215,109	(353,138)
Grants from Private and Local Sources.....	152,967	155,404	105,607	(49,797)
Rents and Leases.....	7,821	8,131	8,161	30
Interest Premiums and Discounts.....	8,980	8,980	9,219	239
Sale of Commodities.....	6,126	6,063	8,523	2,460
Sale of Services.....	126,517	126,909	169,842	42,933
Assessments.....	52,831	82,707	79,792	(2,915)
Grants from Other Agencies.....	140,927	167,641	136,056	(31,585)
Miscellaneous.....	26,963	32,314	122,993	90,679
Total Revenue.....	3,184,851	3,414,416	3,142,816	(271,600)
EXPENDITURES				
GENERAL GOVERNMENT				
Legislative Branch.....	17,590	17,590	11,276	6,314
Executive.....	42,240	45,496	25,033	20,463
Information Technology.....	25,087	47,422	39,161	8,261
Administrative Services.....	44,599	52,786	38,534	14,252
Safety.....	9,105	9,105	7,334	1,771
Sec of State.....	17,197	17,203	6,178	11,025
Cultural Affairs.....	7,530	7,778	5,784	1,994
Revenue Administration.....	15,124	14,558	13,255	1,303
State Treasury.....	70,822	114,531	114,124	407
NH Retirement System.....	75,648	75,733	65,582	10,151
Boards and Commissions.....	2,886	2,942	2,340	602
Total.....	327,828	405,144	328,601	76,543
JUSTICE AND PUBLIC PROTECTION				
Judicial Branch.....	61,452	61,527	59,010	2,517
Adjutant General.....	11,617	12,633	11,062	1,571
Agriculture.....	4,042	4,386	3,171	1,215
Justice Department.....	26,693	32,260	32,260	

See accompanying Independent Auditors' Report. The Notes to Required Supplementary Information are an integral part of this schedule.

STATE OF NEW HAMPSHIRE
BUDGET TO ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE (continued)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

	General Fund			
	Budgeted Amount		ACTUAL	Variance with Final Budget- Positive (Negative)
	ORIGINAL	FINAL	(Budgetary Basis)	
JUSTICE AND PUBLIC PROTECTION-CONTINUED				
Bank Commission.....	3,931	3,931	2,912	1,019
Pari-Mutuel Commission.....	2,290	2,292	1,914	378
Highway Safety.....	1,798	2,700	1,391	1,309
Insurance.....	8,338	8,338	5,634	2,704
Labor	8,078	14,263	14,263	
Public Utilities Commission.....	8,193	8,228	6,408	1,820
Safety.....	156,387	196,602	106,975	89,627
Corrections Department.....	84,107	83,584	81,600	1,984
Employment Security.....	49,233	49,282	26,106	23,176
Judicial Council.....	17,304	17,404	17,404	
Human Rights Commission	617	598	514	84
Boards and Commissions.....	785	852	811	41
Total.....	444,865	498,880	371,435	127,445
RESOURCE PROTECTION AND DEVELOPMENT				
Resource and Economic Development.....	39,331	41,751	33,869	7,882
Pease Development Authority.....	7,845	7,845	374	7,471
Environmental Services.....	212,625	217,543	118,669	98,874
Development Finance Authority.....	11,239	11,239	276	10,963
Boards and Commissions.....	496	521	509	12
Total.....	271,536	278,899	153,697	125,202
TRANSPORTATION				
Transportation.....	24,841	24,813	6,812	18,001
Total.....	24,841	24,813	6,812	18,001
HEALTH AND SOCIAL SERVICES				
Health and Human Services Commissioner.....	697,237	771,952	728,773	43,179
Office of Health Management.....	71,954	72,868	58,989	13,879
Children and Youth.....	162,771	162,833	118,573	44,260
Transitional Assistance.....	88,993	90,120	85,031	5,089
Behavioral Health.....	118,657	123,743	116,114	7,629
Developmental Services.....	174,368	179,817	168,594	11,223
N H Hospital.....	59,264	57,976	54,908	3,068
Home for Elderly.....	9,844	10,008	9,732	276
N H Veterans Home.....	14,898	15,917	14,726	1,191
Veterans Council.....	370	363	359	4
Youth Development Services.....	30,371	31,005	24,103	6,902

See accompanying Independent Auditors' Report. The Notes to Required Supplementary Information are an integral part of this schedule.

STATE OF NEW HAMPSHIRE
BUDGET TO ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE (continued)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

	General Fund			
	Budgeted Amount			Variance with Final Budget-
	ORIGINAL	FINAL	ACTUAL (Budgetary Basis)	Positive (Negative)
Elderly and Adult Services.....	392,641	459,995	415,262	44,733
Admin and Support.....	647	640	589	51
Boards and Commissions.....	2,846	3,373	2,469	904
Total.....	1,824,861	1,980,610	1,798,222	182,388
EDUCATION				
Post Secondary Education Commission.....	4,692	4,857	4,630	227
Department of Education.....	362,596	317,202	238,407	78,795
NH Comm. Tech. College System.....	99,362	108,664	82,985	25,679
Planetarium.....	1,029	1,047	964	83
Police Standards and Training Council.....	6,532	7,715	3,097	4,618
University of New Hampshire.....	84,986	85,282	85,282	
Total.....	559,197	524,767	415,365	109,402
Debt Service.....	88,341	89,112	84,767	4,345
Capital Outlays.....	31,153	31,152	24,141	7,011
Total	3,572,622	3,833,377	3,183,040	650,337
Excess (Deficiency) of Revenues				
Over (Under) Expenditures.....	(387,771)	(418,961)	(40,224)	378,737
<u>Other Financing Sources (Uses)</u>				
Transfers In.....	98,031	98,031	98,031	
Transfers Out		(54,264)	(54,264)	
Increase in Bonds Authorized.....	42,800	42,800	42,800	
Proceeds from Bond Refunding.....		58	58	
Miscellaneous.....		974	974	
Total Other Financing Sources Uses.....	140,831	87,599	87,599	
Excess (Deficiency) of Revenues and Other				
Sources Over (Under) Expenditures and Other Uses.....	(246,940)	(331,362)	47,375	378,737
Fund Balance - July 1.....	307,538	307,538	307,538	
Fund Balance - June 30.....	\$ 60,598	\$ (23,824)	\$ 354,913	\$ 378,737

See accompanying Independent Auditors' Report. The Notes to Required Supplementary Information are an integral part of this schedule.

STATE OF NEW HAMPSHIRE
BUDGET TO ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
HIGHWAY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

	Highway Fund			
	Budgeted Amounts			
	Original	Final	Actual (Budgetary Basis)	Variance with Final Budget-Positive (Negative)
REVENUES				
Business License Taxes.....	\$ 148,020	\$ 148,020	\$ 154,335	\$ 6,315
Non-Business License Taxes.....	76,110	76,110	73,216	(2,894)
Fees.....	19,818	19,818	21,805	1,987
Fines, Penalties and Interest.....	936	936	612	(324)
Grants from Federal Government.....	288,064	288,164	182,008	(106,156)
Grants from Private and Local Sources.....	21,568	21,568	8,107	(13,461)
Rents and Leases.....				
Interest Premiums and Discounts.....	2,500	2,500	2,134	(366)
Sale of Commodities.....	1,236	1,236	173	(1,063)
Sale of Services.....	27,477	27,477	16,788	(10,689)
Assessments.....	310	310	301	(9)
Grants from Other Agencies.....	1,718	1,718	1,521	(197)
Miscellaneous.....	(17,262)	(17,225)	23,021	40,246
Total Revenues.....	570,495	570,632	484,021	(86,611)
EXPENDITURES				
Justice and Public Protection.....	4,320	4,320	1,730	2,590
Transportation.....	532,714	543,480	319,774	223,706
Debt Service.....	5,629	5,674	5,674	
Capital Outlays.....	164,976	164,976	152,648	12,328
Total Expenditures	707,639	718,450	479,826	238,624
Excess (Deficiency) of Revenues Over (Under) Expenditures.....	(137,144)	(147,818)	4,195	152,013
OTHER FINANCING SOURCES (USES)				
Transfers In.....				
Transfers Out		(1,676)	(1,676)	
Miscellaneous.....		(190)	(190)	
Total Other Financing Sources (Uses).....		(1,866)	(1,866)	
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses.....	(137,144)	(149,684)	2,329	152,013
Fund Balance - July 1.....	131,729	131,729	131,729	
Fund Balance - June 30.....	\$ (5,415)	\$ (17,955)	\$ 134,058	\$ 152,013

STATE OF NEW HAMPSHIRE
BUDGET TO ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
EDUCATION FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

	Education Fund			
	Budgeted Amounts			
	Original	Final	Actual (Budgetary Basis)	Variance with Final Budget-Positive (Negative)
REVENUES				
General Property Taxes.....	\$ 383,900	\$ 383,900	\$ 391,404	\$ 7,504
Special Taxes.....	280,700	280,700	310,724	30,024
Personal Taxes.....	27,400	27,400	28,214	814
Miscellaneous.....	39,600	39,600	40,000	400
Total Revenues.....	731,600	731,600	770,342	38,742
EXPENDITURES				
General Government.....	111	7,331	7,331	
Education.....	793,795	805,065	805,065	
Total Expenditures	793,906	812,396	812,396	
Excess (Deficiency) of Revenues Over (Under) Expenditures.....	(62,306)	(80,796)	(42,054)	38,742
OTHER FINANCING SOURCES (USES)				
Transfers In.....		53,507	53,507	
Transfers Out				
Miscellaneous.....				
Total Other Financing Sources (Uses).....		53,507	53,507	
Excess (Deficiency) of Revenues and Other Sources Over (Under)				
Expenditures and Other Uses.....	(62,306)	(27,289)	11,453	38,742
Fund Balance - July 1.....	16,499	16,499	16,499	
Fund Balance - June 30.....	\$ (45,807)	\$ (10,790)	\$ 27,952	\$ 38,742

Note to the Required Supplementary Information - Budgetary Reporting

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

RECONCILIATION OF BUDGETARY TO GAAP

The state's biennial budget is prepared on a basis other than GAAP. The "actual" results columns of the Budget and Actual – Non-GAAP budgetary statements are presented on a "budgetary basis" to provide a meaningful comparison to budget.

The major differences between the budgetary basis and the GAAP basis are:

1. Expenditures (Budgetary) are recorded when cash is paid or committed by contractual obligation (encumbrance), rather than when the obligation is incurred (GAAP). Revenues (Budgetary) are based on cash received plus estimated revenues related to the budgetary expenditures and contractual obligations (encumbrances). Additional revenue accruals are made on a (GAAP) basis only.
2. On a GAAP basis, major inter-agency and intra-agency transactions are eliminated in order to not double count revenues and expenditures.

The following schedule reconciles the General and Major Special Revenue Funds of the primary government for differences between budgetary accounting methods and the GAAP basis accounting principles for the year ended June 30, 2005 (expressed in thousands).

	General Fund	Highway Fund	Education Fund
Excess (Deficiency) of revenues and other financing sources over (under) expenditures and other financing uses (Budgetary Basis)	\$ 47,375	\$ 2,329	\$ 11,453
Adjustments and Reclassifications:			
To record Accounts Payable and Accrued Payroll	(36,691)	(5,662)	2,800
To Record Encumbrances	19,449	60,028	
To Record Accounts Receivable and Deferred Revenue	24,656	(49,700)	
To Record Other Financing Sources	15,211		(14,629)
Excess (Deficiency) of revenues and other financing sources over (under) expenditures and other financing uses* (GAAP Basis)	\$ 70,000	\$ 6,995	\$ (376)

*Includes Change in Inventory reserves for General and Highway of \$1,067, \$(190) respectively.

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Combining Financial Statements

Highway Fund

The state's highway fund serves a dual role, comprising of both operating activities and long-term capital improvement activities.

*The **capital account** is comprised of four main construction accounts (federal construction aid, state aid, municipal bridge and betterment). The **operating account** represents the total highway fund less the capital account activities.*

STATE OF NEW HAMPSHIRE
COMBINING SCHEDULE OF BALANCE SHEET ACCOUNTS
HIGHWAY FUND
JUNE 30, 2005
(Expressed in Thousands)

	Highway Capital	Highway Operating	Total Highway Fund
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 23,732	\$ 88,742	\$ 112,474
Receivables (Net of Allowances for Uncollectibles) ..	28,007	14,583	42,590
Inventories		5,715	5,715
Total Assets	<u>\$ 51,739</u>	<u>\$ 109,040</u>	<u>\$ 160,779</u>
<u>LIABILITIES</u>			
Accounts Payable	\$ 20,184	\$ 2,944	\$ 23,128
Accrued Payroll		3,933	3,933
Deferred Revenue	8,480		8,480
Total Liabilities	<u>28,664</u>	<u>6,877</u>	<u>35,541</u>
<u>FUND BALANCES</u>			
Reserved for Encumbrances	48,933	5,867	54,800
Reserved for Inventories		5,715	5,715
Reserved for Unexpended Appropriations	50,313	7,436	57,749
Unreserved, Undesignated Surplus/(Deficit)	(76,171)	83,145	6,974
Total Fund Balances	<u>23,075</u>	<u>102,163</u>	<u>125,238</u>
Total Liabilities and Fund Balances	<u>\$ 51,739</u>	<u>\$ 109,040</u>	<u>\$ 160,779</u>

STATE OF NEW HAMPSHIRE
COMBINING SCHEDULE OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE ACCOUNTS
HIGHWAY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Expressed in Thousands)

	Highway Capital	Highway Operating	Total Highway Fund
<u>REVENUES</u>			
Business License Taxes (Betterment).....	\$ 22,629	\$ 131,706	\$ 154,335
Non-Business License Taxes.....		73,216	73,216
Fees.....		22,258	22,258
Fines, Penalties and Interest.....		612	612
Grants from Federal Government.....	147,557	515	148,072
Grants from Private and Local Sources.....	1,746	1,575	3,321
Rents and Leases.....			
Interest, Premiums and Discounts.....		2,134	2,134
Sale of Commodities.....		173	173
Sale of Service.....		4,350	4,350
Assessments.....		-	-
Grants from Other Agencies.....		1,273	1,273
Miscellaneous.....	26	8,982	9,008
Total Revenues.....	171,958	246,794	418,752
<u>EXPENDITURES</u>			
Administration of Justice and Public Protection.....		1,381	1,381
Transportation.....	28,265	221,209	249,474
Debt Service.....		5,674	5,674
Capital Outlay.....	150,794	2,568	153,362
Total Expenditures.....	179,059	230,832	409,891
Excess (Deficiency) of Revenues Over (Under) Expenditures.....	(7,101)	15,962	8,861
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In (Out).....	13,444	(13,444)	
Transfers Out.....		(1,676)	(1,676)
Total Other Financing Sources (Uses).....	13,444	(15,120)	(1,676)
Excess of Revenues and Other Sources Over Expenditures and Other Uses.....	6,343	842	7,185
Fund Balances - July 1	16,732	101,511	118,243
Change in Reserve for Inventory.....		(190)	(190)
Fund Balances - June 30.....	\$ 23,075	\$ 102,163	\$ 125,238

Non - Major Governmental Financial Statements

Special Revenue Fund: Fish and Game Fund: *The operations of the state Fish and Game Department, including the operation of fish hatcheries, inland and marine fisheries, and wildlife areas, and functions related to law enforcement, land acquisition, and wildlife management and research, are financed through the Fish and Game Fund. Principal revenues of this fund include fees from fish and game licenses, the marine gas tax, penalties, and recoveries, and federal grants-in-aid related to fish and game management, all of which are appropriated annually by the Legislature for the use of the Fish and Game Department.*

Capital Projects Fund: *Used to account for certain capital improvement appropriations which are or will be primarily funded by the issuance of state bonds or notes, other than bonds and notes for highway or turnpike purposes, or by the application of certain federal matching grants.*

Permanent Funds:

NH Hospital: *Consist of several trust funds that were made expressly for the benefit of patients at the NH Hospital through various bequeathals.*

Land Conservation Endowment: *The Land Conservation Investment Program (LCHIP) is responsible for monitoring the condition and status of 80 state-held conservation easements acquired by the LCHIP.*

Other: *The other category consists of several accounts that report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the state or its citizenry. They include: Harriet Huntress, Hattie Livesey, John Nesmith, Special Teachers Comp., Catastrophic Illness, Sam Whidden Trust, Ben Thompson, and the Guy Thompson Memorial.*

STATE OF NEW HAMPSHIRE
COMBINING BALANCE SHEET
NON - MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2005
(Expressed in Thousands)

	Fish & Game	Capital	Permanent Funds				Total Non-Major
			NH Hospital	Land Conservation Endowment	Other Permanent	Total Permanent	
ASSETS							
Cash and Cash Equivalents	\$ 8,539						\$ 8,539
Investments			\$ 5,474	\$ 2,394	\$ 5,874	\$ 13,742	13,742
Receivables (Net).....	1,537	\$ 7,755					9,292
Bonds Authorized & Unissued.....							
Inventories.....	917						917
Total Assets.....	\$ 10,993	\$ 7,755	\$ 5,474	\$ 2,394	\$ 5,874	\$ 13,742	\$ 32,490
LIABILITIES							
Accounts Payable.....	\$ 488	\$ 13,761					\$ 14,249
Accrued Payroll.....	606						606
Deferred Revenue		2,041					2,041
Due to other funds.....		16,224					16,224
Total Liabilities.....	1,094	32,026					33,120
FUND BALANCES							
Reserved for Encumbrances.....	1,526	41,223					42,749
Reserved for Inventories.....	917						917
Reserved for Unexpended Appropriations..	4,400	65,419					69,819
Reserved for Permanent Trust			\$ 5,474	\$ 2,394	\$ 5,874	\$ 13,742	13,742
Unreserved, Undesignated (Deficit).....	3,056	(130,913)					(127,857)
Total Fund Balances (Deficit).....	9,899	(24,271)	5,474	2,394	5,874	13,742	(630)
Total Liabilities and Fund Balances	\$ 10,993	\$ 7,755	\$ 5,474	\$ 2,394	\$ 5,874	\$ 13,742	\$ 32,490

**STATE OF NEW HAMPSHIRE
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Expressed in Thousands)**

	Permanent Funds						
	Fish & Game	Capital	NH Hospital	Conservation Land Endowment	Other Permanent	Total Permanent	Total Non-Major
REVENUES							
General Property Taxes.....							
Special Taxes.....							
Personal Taxes.....							
Business License Taxes.....							
Non-Business License Taxes.....	\$ 8,451						\$ 8,451
Fees.....	1,207						1,207
Fines, Penalties and Interest.....	159						159
Grants from Federal Government.....	6,317	\$ 25,311					31,628
Grants from Private and Local Sources.....	245	234					479
Rents and Leases.....							
Interest, Premiums and Discounts.....	201		\$ 193	\$ 113	\$ 110	\$ 416	617
Sale of Commodities.....	289						289
Sale of Service.....	5						5
Assessments.....							
Grants from Other Agencies.....	327	10,925					11,252
Miscellaneous.....	4,792	3	97	(21)	3,726	3,802	8,597
Total Revenues.....	21,993	36,473	290	92	3,836	4,218	62,684
EXPENDITURES							
Current:							
General Government.....							
Administration of Justice & Public Protection.....							
Resource Protection and Development.....	21,298			113		113	21,411
Transportation.....							
Health and Social Services.....			216		48	264	264
Education.....							
Debt Service.....	290						290
Capital Outlay.....	1,387	109,260					110,647
Total Expenditures.....	22,975	109,260	216	113	48	377	132,612
Excess (Deficiency) of Revenues							
Over (Under) Expenditures.....	(982)	(72,787)	74	(21)	3,788	3,841	(69,928)
OTHER FINANCING SOURCES (USES)							
Transfers In	838	757					1,595
G.O. Bond Premium.....		123					123
G.O. Bond Issuance.....		75,000					75,000
Total Other Financing Sources (Uses).....	838	75,880					76,718
Excess (Deficiency) of Revenues & Other Sources							
Over (Under) Expenditures & Other Uses.....	(144)	3,093	74	(21)	3,788	3,841	6,790
Fund Balances - July 1	9,728	(27,364)	5,400	2,415	2,086	9,901	(7,735)
Change in Reserve for Inventory.....	315						315
Fund Balances (Deficit) - June 30.....	\$ 9,899	\$ (24,271)	\$ 5,474	\$ 2,394	\$ 5,874	\$ 13,742	\$ (630)

STATE OF NEW HAMPSHIRE
BUDGET TO ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
FISH & GAME FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

(expressed in thousands)

Fish and Game Fund

	Budgeted Amounts			
	Original	Final	Actual (Budgetary Basis)	Variance with Final Budget-Positive (Negative)
REVENUES				
Business License Taxes.....	\$ 65	\$ 65		\$ (65)
Non-Business License Taxes.....	8,764	8,789	\$ 8,480	(309)
Fees.....	2,578	2,578	1,783	(795)
Fines, Penalties and Interest.....	150	150	159	9
Grants from Federal Government.....	6,195	8,474	6,720	(1,754)
Grants from Private and Local Sources.....	369	379	245	(134)
Interest Premiums and Discounts.....	191	191	201	10
Sale of Commodities.....	314	336	298	(38)
Sale of Services.....	284	581	5	(576)
Grants from Other Agencies.....	1,026	1,362	1,074	(288)
Miscellaneous.....	5,893	5,893	5,072	(821)
Total Revenues.....	25,829	28,798	24,037	(4,761)
EXPENDITURES				
Resource Protection and Development.....	32,178	35,890	23,141	12,749
Debt Service.....	287	577	290	287
Capital Outlays.....	1,396	1,396	1,387	9
Total Expenditures	33,861	37,863	24,818	13,045
Excess (Deficiency) of Revenues Over (Under) Expenditures.....	(8,032)	(9,065)	(781)	8,284
OTHER FINANCING SOURCES (USES)				
Transfers In.....				
Transfers Out		838	838	
Miscellaneous.....		315	315	
Total Other Financing Sources (Uses).....		1,153	1,153	
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses.....	(8,032)	(7,912)	372	8,284
Fund Balance - July 1.....	10,355	10,355	10,355	
Fund Balance - June 30.....	\$ 2,323	\$ 2,443	\$ 10,727	\$ 8,284

RECONCILIATION OF BUDGETARY TO GAAP

The state's biennial budget is prepared on a basis other than GAAP. The "actual" results column of the Budget and Actual – Non-GAAP budgetary statement are presented on a "budgetary basis" to provide a meaningful comparison to budget.

The major differences between the budgetary basis and the GAAP basis are:

1. Expenditures are recorded when cash is paid or committed (budgetary), rather than when the obligation is incurred (GAAP). In addition, revenue based on these accruals is adjusted on a GAAP basis only.
2. On a GAAP basis, major inter-agency and intra-agency transactions are eliminated in order to not double count revenues and expenditures.

The following schedule reconciles the Fish and Game Fund of the primary government for differences between budgetary accounting methods and the GAAP basis accounting principles for the year ended June 30, 2005 (expressed in thousands).

	Fish & Game Fund
Excess (Deficiency) of revenues and other financing sources over (under) expenditures and other financing uses (Budgetary Basis)	\$ 372
Adjustments and Reclassifications: To record Accounts Payable and Accrued Payroll	292
To Record Encumbrances	190
To Record Accounts Receivable and Deferred Revenue	(683)
Excess (Deficiency) of revenues and other financing sources over (under) expenditures and other financing uses* (GAAP Basis)	\$ 171

See accompanying Independent Auditors' Report

*Includes Change in Inventory reserves of \$315.

Internal Service Fund

STATE OF NEW HAMPSHIRE
COMBINING SCHEDULE OF BALANCE SHEET ACCOUNTS
EMPLOYEE BENEFIT RISK MANAGEMENT FUND
JUNE 30, 2005
(Expressed in Thousands)

	Health				
	Active	Retirees	Total	Dental	Total
ASSETS					
Current Assets:					
Cash and Cash Equivalents.....	\$ 8,705	\$ 8,554	\$ 17,259	\$ 2	\$ 17,261
Accounts Receivable.....	248	114	362		362
Total Assets.....	<u>\$ 8,953</u>	<u>\$ 8,668</u>	<u>\$ 17,621</u>	<u>\$ 2</u>	<u>\$ 17,623</u>
LIABILITIES					
Current Liabilities:					
Claims Payable.....	\$ 656	\$ 240	\$ 896		\$ 896
Incurred but not Reported (IBNR).....	8,857	5,038	13,895		13,895
Total Liabilities.....	<u>9,513</u>	<u>5,278</u>	<u>14,791</u>		<u>14,791</u>
NET ASSETS					
Total Net Assets (Deficit).....	<u>\$ (560)</u>	<u>\$ 3,390</u>	<u>\$ 2,830</u>	<u>\$ 2</u>	<u>\$ 2,832</u>

**STATE OF NEW HAMPSHIRE
COMBINING SCHEDULE OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE ACCOUNTS
EMPLOYEE BENEFIT RISK MANAGEMENT FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Expressed in Thousands)**

	<u>Health</u>				
	<u>Active</u>	<u>Retirees</u>	<u>Total</u>	<u>Dental</u>	<u>Total</u>
OPERATING REVENUES					
Charges for Sales and Services					
Contributions For Health Benefits					
State Contributions:					
Active Employees.....	\$ 133,043		\$ 133,043		\$ 133,043
Retired Judges & Constitutional Officers.....		\$ 458	458		458
Retired Employees.....		42,871	42,871		42,871
Non-State Contributions:					
Other Employers.....	1,018	24	1,042		1,042
COBRA Participants.....	890		890		890
Legislator Participants.....	479	197	676		676
Retirement Subsidies & Deductions.....		13,523	13,523		13,523
Recoveries.....	280	220	500		500
Total Contributions for Health Benefits.....	135,710	57,293	193,003		193,003
State Contributions For Dental Benefits				\$ 8,912	8,912
Total Charges for Sales and Services.....	135,710	57,293	193,003	8,912	201,915
OPERATING EXPENSES					
Health Care Expenses					
Medical Payments.....	93,071	27,428	120,499		120,499
Pharmaceuticals.....	26,848	21,687	48,535		48,535
Dental Insurance Premiums.....				8,917	8,917
Ancillary Benefits.....	566		566		566
Total Health Care Expenses.....	120,485	49,115	169,600	8,917	178,517
Administrative Expenses.....	4,851	3,222	8,073		8,073
Enrollment.....	362		362		362
Total Operating Expenses.....	125,698	52,337	178,035	8,917	186,952
Operating Income (Loss).....	10,012	4,956	14,968	(5)	14,963
Net Assets (Deficit) - July 1	(10,572)	(1,566)	(12,138)	7	(12,131)
Net Assets (Deficit) - June 30.....	\$ (560)	\$ 3,390	\$ 2,830	\$ 2	\$ 2,832

Component Units

STATE OF NEW HAMPSHIRE
COMBINING STATEMENT OF NET ASSETS
NON-MAJOR COMPONENT UNITS
JUNE 30, 2005
(Expressed in Thousands)

	Business Finance Authority	Community Development Finance Authority	Pease Development Authority	Total
ASSETS				
Current Assets:				
Cash and Cash Equivalents.....	\$ 4,183	\$ 5,001	\$ 6,603	\$ 15,787
Cash and Cash Equivalents-Restricted.....			844	844
Accounts Receivable.....	265	64	3,213	3,542
Other Receivables-Restricted.....			6,298	6,298
Notes Receivable - Current Portion.....	4,039	16,226		20,265
Prepaid Expenses & Other.....	34	27	278	339
Total Current Assets.....	8,521	21,318	17,236	47,075
Noncurrent Assets:				
Investments.....	12,260			12,260
Notes & Other Receivables.....	7,840	1,465		9,305
Pledge Receivable-Restricted.....		2,297		2,297
Other Assets.....	299		670	969
Capital Assets:				
Land & Land Improvements.....		29	348	377
Building & Building Improvements.....	7,951		86,113	94,064
Equipment.....	89	116	5,129	5,334
Construction in Progress.....			2,677	2,677
Less: Accumulated Depreciation.....	(2,662)	(87)	(31,172)	(33,921)
Net Capital Assets.....	5,378	58	63,095	68,531
Total Noncurrent Assets.....	20,399	3,762	670	24,831
Total Assets.....	34,298	25,138	81,001	140,437
Current Liabilities:				
Accounts Payable.....		174	1,166	1,340
Accrued Salaries and Wages.....		66		66
Accrued Employee Benefits - Current.....	18			18
Other Payables & Accrued Expenses.....		15,687	1,358	17,045
Other Liabilities.....	343		77	420
Deposits and Deferred Revenues.....	2,805	841	1,067	4,713
Long Term Debt-Current Portion.....			1,815	1,815
Total Current Liabilities.....	3,166	16,768	5,483	25,417
Noncurrent Liabilities:				
Obligations Under Life Income Agreements.....				
Accrued Employee Benefits.....				
Due to Primary Government.....			35,079	35,079
Other Long Term Debt.....	24,094	5,129	2,313	31,536
Total Noncurrent Liabilities.....	24,094	5,129	37,392	66,615
Total Liabilities.....	27,260	21,897	42,875	92,032
NET ASSETS				
Invested in Capital Assets, Net of Related Debt....	5,378	57	41,652	47,087
Restricted for Specific Purpose.....	653		767	1,420
Restricted for Long Term Receivable.....			6,299	6,299
Unrestricted.....	1,007	3,184	(10,592)	(6,401)
Total Net Assets.....	\$ 7,038	\$ 3,241	\$ 38,126	\$ 48,405

STATE OF NEW HAMPSHIRE
COMBINING STATEMENT OF ACTIVITIES
NON-MAJOR COMPONENT UNITS
JUNE 30, 2005
(Expressed in Thousands)

	Business Finance Authority	Community Development Finance Authority	Pease Development Authority	Total
Expenses.....	\$ 2,395	\$ 1,878	\$ 14,281	\$ 18,554
Program Revenues:				
Charges for Services:				
Tuition & Fees.....				
Scholarship Allowances.....				
Sales, Services, & Other Revenue.....	3,371	1,156	13,286	17,813
Operating Grants & Contributions.....		834		834
Capital Grants & Contributions.....			2,585	2,585
Total Program Revenues.....	3,371	1,990	15,871	21,232
Net Revenues.....	976	112	1,590	2,678
Interest & Investment Income.....	102	94	35	231
Payments (to) from State of New Hampshire....	(241)			(241)
Change in Net Assets.....	837	206	1,625	2,668
Net Assets - Beginning.....	6,201	3,035	36,501	45,737
Net Assets - Ending.....	\$ 7,038	\$ 3,241	\$ 38,126	\$ 48,405

Private - Purpose Trust Funds

Special Fund for Second Injury: *The intent of the Second injury fund is to equalize the compensation costs that the employer and their insurance company must pay for impaired and non-impaired workers alike, thereby removing a potential barrier to the employment of impaired workers. This fund gives employers the opportunity to limit their compensation costs in the event that an impaired employee sustains a workers compensation injury, which leaves the worker more disabled than the same injury would leave a non-impaired worker. Each carrier and self-insured employer pays into the fund based on a formula per statute. Reimbursements for compensable payments made by insurance carriers and self-insured employers, are made only upon written order by the Labor Commissioner to the State Treasurer. The State Treasurer is the custodian of the fund and all moneys and securities in the fund are held in trust by the treasurer and do not constitute money or property of the state.*

Electrical Assistance Program Utility Fund: *The Electrical Assistance Program (EAP) was developed by the Public Utilities Commission (PUC) to respond to the Legislature's call for low-income programs as part of electric restructuring. Accordingly, PUC issued an order approving a program to provide bill assistance to customers, and set up this fund. This program provides income-eligible customers with discounts on their electric bills. Customer bills for low-income assistance are adjusted by the utility company. The state treasurer is the custodian of the fund, and all moneys and securities in the fund are held in trust by the state treasurer and do not constitute money or property of the state. According to the Consumer Affairs Director at PUC, if the Electrical Assistance Program (EAP) were to cease operations, the funds would not remain with Treasury, the custodian of the funds, they would be have to be returned to the rate payers.*

College Savings: *This fund is The New Hampshire Excellence in Higher Education Endowment Trust Fund; a non state program which has the purpose of providing scholarships for the benefit of residents of the state of New Hampshire who are pursuing programs of study at eligible educational institutions within the state. Funding will come from a portion of the administrative proceeds of New Hampshire's UNIQUE College Investing Plan. The fund is administered by the New Hampshire College Tuition Savings Plan Advisory Commission, and scholarships will be granted based on need and merit. The State Treasurer is the trustee of the fund.*

Other: *The other category consists of several accounts whose trust arrangements provide principal and income to benefit individuals, private organizations or other governments. They include: NH Veterans Home Funds, Prison Funds, Laconia State School, Japanese Charitable Trust, Youth Development Center, Rural Rehab. Corporation, Matthew Elliott Trust, YDC Other Funds, and the Special Fund for Active Cases.*

STATE OF NEW HAMPSHIRE
COMBINING STATEMENT OF NET ASSETS -
PRIVATE - PURPOSE TRUST FUNDS
JUNE 30, 2005
(Expressed in Thousands)

	Private-Purpose Trust Funds				
	Special Fund For Second Injuries	EAP	College Savings	Other	Total Private-Purpose
<u>ASSETS</u>					
Cash and Cash Equivalents.....	\$ 7,057	\$ 650		\$ 556	\$ 8,263
Other Receivables.....					
Investments.....			\$ 14,918	934	15,852
Total Assets.....	7,057	650	14,918	1,490	24,115
<u>LIABILITIES</u>					
Other Liabilities.....				121	121
Total Liabilities.....				121	121
Net Assets Held in Trust for Benefits					
& Other Purposes.....	\$ 7,057	\$ 650	\$ 14,918	\$ 1,369	\$ 23,994

STATE OF NEW HAMPSHIRE
 STATEMENT OF CHANGES IN NET ASSETS -
 PRIVATE-PURPOSE TRUST FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005
 (Expressed in Thousands)

	Private Purpose Trust Funds				
	Special Fund For Second Injuries	EAP	College Savings	Other	Total Private Purpose
<u>ADDITIONS</u>					
Contributions:					
From Participants.....	\$ 9,264	\$ 1,457	\$ 6,317	\$ 2,802	\$ 19,840
From Gifts, Bequests, and Endowments.....					
Total Contributions.....	9,264	1,457	6,317	2,802	19,840
Interest Income.....	86	47	69	24	226
Other.....			824	46	870
Total Additions.....	9,350	1,504	7,210	2,872	20,936
<u>DEDUCTIONS</u>					
Benefits/Distributions to Participants.....	7,956	3,270	261	2,791	14,278
Other.....	0			95	95
Total Deductions.....	7,956	3,270	261	2,886	14,373
Net Increase/(Decrease).....	1,394	(1,766)	6,949	(14)	6,563
<u>NET ASSETS HELD IN TRUST FOR BENEFITS & OTHER PURPOSES</u>					
Beginning of the Year.....	5,663	2,416	7,969	1,383	17,431
End of the Year.....	\$ 7,057	\$ 650	\$ 14,918	\$ 1,369	\$ 23,994

Agency Funds

Unified Court System: *These funds are litigation accounts. When a party sues another party funds are held in the Judicial Branch Trust Funds until a judgment is made. These trust funds are classified by the court; Superior, Probate, District and Family Division, and have several account types within each court.*

Child Support Funds: *There are currently five non-state program funds reported under the child support funds and all function in a custodial capacity for the benefit of child support recipients. The Payroll account has the most activity and resulted from the transfer of activity from the Department of Probation to the Division of Human Services (Welfare) in 1981. This account includes the checking account for the dollars received and disbursed on behalf of those receiving Child Support. The revolving fund was established to make timely payment of certain child support enforcement services costs. The purpose of the child support enforcement program is to obtain from responsible parents reimbursement of financial assistance provided their dependent children. The Department of Human Services, Division of Child Support Services, has an agreement with ACS State and Local Solutions, Inc., to manage the billing, collection and telecommunication system operated on a statewide basis as part of the automated child support system, which is labeled the Lockbox account. This lockbox functions as DCSS' State Disbursement Unit (SDU). An SDU must be capable of receiving, recording and depositing wage assignments from employers and direct payments from non-custodial parents. Within 48 hours of receiving a payment, an SDU must make an accurate distribution of payments to families throughout New Hampshire, the remaining states and territories, and several foreign countries. The other two funds are used for collections relation to Juvenile Services restitution cases and court repayment of lawyer's fees.*

Nuclear Decommissioning Fund: *The Nuclear Decommissioning Fund ("Fund") was established pursuant to RSA 162 – F, in the office of the Treasurer of the State of New Hampshire, to ensure that money is available to pay the full cost of decommissioning the Seabrook Nuclear Power Project (Seabrook Station), following the end of its useful life, to ensure the health, safety and well-being of the public and of current and future generations. This statute also established the Nuclear Decommissioning Financing Committee which is responsible, among other things, to periodically determine the projected cost of decommissioning and to determine the schedule of payments required to be paid into the Fund by each owner of Seabrook Station. The owners of Seabrook Station, who retain title to the Fund, have full responsibility for decommissioning and are entitled to any funds remaining following the decommissioning process. The State has no financial responsibility for any nuclear decommissioning costs.*

Maine-NH Interstate Bridge: *The bridge over the Piscataqua River was inadequate to accommodate the traffic between the states of Maine and New Hampshire. The solution to this problem was the construction of a new bridge. As a result, the Maine-New Hampshire Interstate Bridge Authority was created, with the consent of the United State Congress, by entering into a compact formed through the joining of the state of Maine and New Hampshire through a common agency, a corporation in the state of New Hampshire. The Authority has the power and authority to construct, maintain, reconstruct and operate an interstate bridge across the Piscataqua River between Kittery, Maine and Portsmouth, New Hampshire, and its approach roads.*

Other: *The other category consists of several accounts whose assets and liabilities for deposits and investments have been entrusted to the state as an agent for others. The following make up this category, Glencliff Home, Financial Responsibility, Dissolution of Corporations, Employee US Savings Bonds, NH Tech. Student Activities, Skyhaven Hangar, Corrections Funds, Fish & Game Lifetime Licenses, and the Community Conservation Endowment Funds.*

STATE OF NEW HAMPSHIRE
 COMBINING STATEMENT OF ASSETS AND LIABILITIES
 AGENCY FUNDS
 JUNE 30, 2005
 (Expressed in Thousands)

	Agency Funds					Total
	Unified Court System	Child Support Funds	Nuclear Decommissioning Fund	Maine-NH Interstate Bridge	Other Agency Funds	
ASSETS						
Cash and Cash Equivalents.....	\$ 5,638	\$ 1,374			\$ 4,841	\$ 11,853
Investments.....			\$ 326,986	\$ 2,837	2,583	332,406
Total Assets.....	\$ 5,638	\$ 1,374	\$ 326,986	\$ 2,837	\$ 7,424	\$ 344,259
LIABILITIES						
Custodial Funds Payable.....	\$ 5,638	\$ 1,374	\$ 326,986	\$ 2,837	\$ 7,402	\$ 344,237
Other Liabilities.....					22	22
Total Liabilities.....	\$ 5,638	\$ 1,374	\$ 326,986	\$ 2,837	\$ 7,424	\$ 344,259

STATE OF NEW HAMPSHIRE
COMBINING STATEMENT OF CHANGES
IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Expressed in Thousands)

	Balance		Balance	
	July 1, 2004	Additions	Deletions	June 20, 2005
<u>Unified Court System</u>				
<u>ASSETS</u>				
Cash and Cash Equivalents.....	\$ 4,813	\$ 14,503	\$ 13,678	\$ 5,638
<u>LIABILITIES</u>				
Custodial Funds Payable.....	\$ 4,813	\$ 14,503	\$ 13,678	\$ 5,638
<u>Child Support Funds</u>				
<u>ASSETS</u>				
Cash and Cash Equivalents.....	\$ 1,514	\$ 172,332	\$ 172,472	\$ 1,374
<u>LIABILITIES</u>				
Custodial Funds Payable.....	\$ 1,514	\$ 172,332	\$ 172,472	\$ 1,374
<u>Nuclear Decommissioning Fund</u>				
<u>ASSETS</u>				
Investments.....	\$ 301,285	\$ 27,004	\$ 1,303	\$ 326,986
<u>LIABILITIES</u>				
Custodial Funds Payable.....	\$ 301,285	\$ 27,004	\$ 1,303	\$ 326,986
<u>Maine-New Hampshire Interstate Bridge Authority</u>				
<u>ASSETS</u>				
Investments.....	\$ 3,422	\$ 180	\$ 765	\$ 2,837
<u>LIABILITIES</u>				
Custodial Funds Payable.....	\$ 3,422	\$ 180	\$ 765	\$ 2,837
<u>Other Agency Funds</u>				
<u>ASSETS</u>				
Cash and Cash Equivalents.....	\$ 2,263	\$ 11,673	\$ 9,095	\$ 4,841
Investments.....	2,212	547	176	2,583
Total Assets.....	\$ 4,475	\$ 12,220	\$ 9,271	\$ 7,424
<u>LIABILITIES</u>				
Other Liabilities.....	\$ 26	\$ 530	\$ 534	\$ 22
Custodial Funds Payable.....	4,449	11,690	8,737	7,402
Total Liabilities.....	\$ 4,475	\$ 12,220	\$ 9,271	\$ 7,424
<u>Totals - Agency Funds</u>				
<u>ASSETS</u>				
Cash and Cash Equivalents.....	\$ 8,590	\$ 198,508	\$ 195,245	\$ 11,853
Investments.....	306,919	27,731	2,244	332,406
Total Assets.....	\$ 315,509	\$ 226,239	\$ 197,489	\$ 344,259
<u>LIABILITIES</u>				
Other Liabilities.....	\$ 26	\$ 530	\$ 534	\$ 22
Custodial Funds Payable.....	315,483	225,709	196,955	344,237
Total Liabilities.....	\$ 315,509	\$ 226,239	\$ 197,489	\$ 344,259

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Statistics



TABLE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GENERAL, HIGHWAY, EDUCATION, AND FISH & GAME FUNDS
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands)

	Fiscal Year Ended June 30									
	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
REVENUES:										
General Property Taxes.....	\$ 392,276	\$ 493,614	\$ 504,891	\$ 501,704	\$ 458,201	\$ 473,706	\$ 535	\$ 563	\$ 566	\$ 408
Special Taxes.....	1,216,864	1,137,423	1,054,577	1,018,713	932,958	853,246	726,398	670,054	606,135	543,910
Personal Taxes.....	101,360	100,015	94,029	84,222	86,350	94,987	73,765	76,091	50,421	44,498
Business License Taxes.....	173,039	170,322	162,973	159,480	222,651	210,432	209,470	195,182	192,608	180,363
Non-Business License Taxes.....	173,800	169,592	163,764	155,279	67,068	65,954	62,817	61,218	59,253	56,868
Fees.....	132,264	121,636	116,266	111,044	107,900	101,247	99,730	84,789	81,989	84,704
Fines, Penalties and Interest.....	24,188	24,365	22,663	20,598	28,703	29,378	26,882	28,952	26,276	25,056
Grants from Federal Government.....	1,389,759	1,347,888	1,198,702	1,072,023	983,342	957,669	914,277	822,569	786,119	814,616
Grants from Private and local Sources.....	103,622	139,755	117,705	101,093	122,584	113,093	116,154	117,707	103,298	107,368
Rents and Leases.....	1,296	1,457	1,333	1,612	1,190	1,430	1,553	4,960	4,832	4,673
Interest, Premiums and Discounts.....	11,554	4,578	11,267	7,195	14,670	16,867	15,368	14,272	12,782	13,507
Sale of Commodities.....	8,701	8,882	11,783	11,354	10,420	10,284	9,826	13,141	11,634	10,485
Sale of Services.....	166,472	153,423	94,314	88,892	76,895	75,492	80,010	73,799	95,338	92,037
Assessments.....	82,209	16,422	14,322	17,365	20,674	22,434	16,771	16,441	15,157	14,058
Grants from Other Agencies.....	9,658	5,659	4,644	3,241	7,631	3,252	4,636	28,852	23,273	21,971
Miscellaneous.....	151,254	163,803	159,518	119,336	89,012	100,159	44,037	43,270	42,056	36,565
Total Revenues.....	4,138,316	4,058,834	3,732,751	3,473,151	3,230,249	3,129,630	2,402,229	2,251,860	2,111,737	2,051,087
EXPENDITURES:										
Current:										
General Government.....	311,755	217,050	211,475	193,996	185,443	184,090	178,530	172,926	177,403	180,569
Administration of Justice and Public Protection.....	278,905	259,579	254,551	235,774	217,222	201,162	193,291	196,322	166,614	156,330
Resource Protection and Development.....	159,462	163,034	161,893	136,086	133,803	118,784	114,199	106,492	102,520	91,089
Transportation.....	258,243	237,711	236,479	221,572	226,928	211,439	201,139	189,599	187,445	189,541
Health and Social Services.....	1,785,996	1,754,938	1,505,032	1,351,583	1,276,100	1,210,723	1,178,090	1,115,939	1,080,933	1,094,810
Education.....	1,208,781	1,281,614	1,263,036	1,206,059	1,120,208	1,107,152	342,837	326,280	289,297	269,425
Debt Service.....	90,731	86,740	89,591	82,759	81,390	81,228	78,730	74,293	75,461	74,754
Capital Outlay.....	178,890	180,304	187,047	212,586	179,568	185,391	155,663	133,435	125,492	102,758
Total Expenditures.....	4,272,763	4,180,970	3,909,104	3,640,415	3,420,662	3,299,969	2,442,479	2,315,286	2,205,165	2,159,276
Excess (Deficiency) of Revenues Over (Under) Expenditures.....	(134,447)	(122,136)	(176,353)	(167,264)	(190,413)	(170,339)	(40,250)	(63,426)	(93,428)	(108,189)
OTHER FINANCING SOURCES (USES):										
Operating Transfers In.....	40,554	59,716	68,488	86,434	335,978	402,754	237,886	224,071	236,315	198,214
Operating Transfers Out.....	(41,311)	(56,421)	(68,796)	(83,882)	(335,002)	(402,818)	(244,501)	(224,065)	(236,442)	(196,062)
Operating Transfers from Enterprise Funds.....	167,944	165,820	152,182	148,727	136,623	137,695	132,829	124,329	117,704	106,879
Proceeds from Issuance of Bonds.....	42,800	0	97,830	5,130					64	34
Proceeds from Refunding Bonds.....							103,351		53,595	
Capital Lease Acquisition.....	0	134	1,159							
Bond Escrow Agent.....	58	0	(97,830)				(103,351)		(53,595)	
Total Other Financing Sources (Uses)....	210,045	169,249	153,033	156,409	137,599	137,631	126,214	124,335	117,641	109,065
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses.....	75,598	47,113	(23,320)	(10,855)	(52,814)	(32,708)	85,964	60,909	24,213	876
Fund Balances - July 1.....	364,263	315,485	339,596	348,517	402,653	435,041	349,855	288,946	264,733	263,857
Change in Reserve for Inventory.....	1,192	1,665	(791)	1,934	(1,322)	320	(778)			
Fund Balances - June 30.....	\$ 441,053	\$ 364,263	\$ 315,485	\$ 339,596	\$ 348,517	\$ 402,653	\$ 435,041	\$ 349,855	\$ 288,946	\$ 264,733
Ratio of Debt Services to Total Expenditures.....	2.12%	2.07%	2.29%	2.27%	2.38%	2.46%	3.22%	3.21%	3.42%	3.46%

TABLE OF UNRESTRICTED REVENUE
GENERAL FUND - GAAP BASIS
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands)

	Fiscal Year Ended June 30									
	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Beer Tax.....	\$ 12,413	\$ 12,445	\$ 12,281	\$ 12,157	\$ 11,656	\$ 12,090	\$ 11,783	\$ 11,442	\$ 11,366	\$ 11,113
Board and Care Revenue.....	15,583	12,384	11,197	10,692	13,333	11,953	11,196	12,966	13,992	13,628
Business Profits Tax	196,647	131,585	137,757	128,574	179,615	146,443	164,833	167,471	171,990	152,683
Business Enterprise Tax.....	114,110	118,538	96,574	121,016	122,165	94,354	93,021	71,036	38,239	24,969
Estate and Legacy Tax.....	11,659	26,971	59,074	56,958	59,348	56,368	54,744	43,274	40,734	33,270
Insurance Tax.....	88,706	86,246	82,161	76,094	66,441	59,336	62,914	54,656	57,202	50,488
Securities Revenue.....	27,904	26,344	25,778	26,060	28,023	25,513	22,465	20,522	18,042	15,622
Interest and Dividends Tax.....	67,896	55,630	55,129	70,334	76,651	65,522	63,134	61,799	52,683	51,878
Liquor.....	112,555	106,676	98,996	96,237	89,344	86,015	77,444	75,440	71,713	65,971
Meals and Rooms Tax.....	186,486	178,480	168,722	164,045	157,202	149,777	137,258	128,688	118,984	113,369
Parks Revenue(1).....										5,205
Dog Racing.....	1,112	1,515	1,572	1,487	1,262	1,058	1,026	1,011	2,213	2,166
Horse Racing.....	2,401	2,474	2,459	2,701	2,592	2,429	2,427	2,238	2,778	3,032
Real Estate Transfer Tax.....	107,821	95,162	78,859	66,393	59,488	56,779	52,925	44,162	33,330	30,192
Telephone/Communications Tax.....	70,039	65,781	62,522	64,663	49,045	47,794	46,219	40,134	39,253	35,519
Tobacco Tax.....	73,159	71,471	67,066	60,294	61,007	68,381	73,784	76,128	50,436	44,537
Tobacco Settlement.....	2,441	1,816	5,862	5,725		442				
Utilities Tax.....	6,265	5,121	7,078	5,565	9,656	9,974	10,402	17,731	17,562	17,488
Courts Fines and Fees.....	25,517	24,673	22,114	23,234	23,218	22,845	21,917	21,021	20,167	18,914
Flexible Grant.....		25,000	25,000							
Other:										
Corporate Returns.....	733	748	750	711	681	676	659	655	698	657
Interstate Vehicle Registrations....	2,334	2,253	2,310	2,377	2,602	2,860	2,858	2,795	2,714	2,857
Motor Boat Registrations.....							1,779	1,847	1,757	1,600
Corporate Filing Fees.....	3,231	2,947	3,346	3,341	3,427	3,436	3,229	3,227	3,219	3,093
Interest on Surplus Funds.....	1,712	174	75	1,250	3,754	3,201	5,978	2,990	181	324
Reimbursement of Indirect Costs..	6,724	6,671	5,675	5,511	4,255	4,094	4,903	5,100	4,184	4,215
Miscellaneous.....	44,878	44,258	40,409	32,403	32,917	27,877	26,192	29,991	26,266	24,516
Subtotal.....	1,182,326	1,105,363	1,072,766	1,037,822	1,057,682	959,217	953,090	896,324	799,703	727,306
Net Medicaid Enhancement										
Revenues (MER).....	147,209	149,831	116,979	98,208	85,217	74,230	70,411	67,502	54,268	101,983
Recoveries.....	22,989	20,374								
Subtotal.....	1,352,524	1,275,568	1,189,745	1,136,030	1,142,899	1,033,447	1,023,501	963,826	853,971	829,289
Other MER Transferred to/(from)										
Uncompensated Care Pool.....	39,062	35,143	16,594	16,263	12,966	12,915	15,839	9,204	43,482	(10,483)
Total Unrestricted Revenue.....	\$ 1,391,586	\$ 1,310,711	\$ 1,206,339	\$ 1,152,293	\$ 1,155,865	\$ 1,046,362	\$ 1,039,340	\$ 973,030	\$ 897,453	\$ 818,806

(1) Beginning in FY 1998, Park Revenue was reclassified as Restricted Revenue.

**TABLE OF UNDESIGNATED FUND BALANCE
GENERAL FUND
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands)**

	Fiscal Year Ended June 30									
	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Balance, July 1 (Budgetary Method).....	\$ 73,757	\$ 20,047	\$ 23,309	\$ 136,349	\$ 62,450	\$ 119,484	\$ 131,367	\$ 42,638	\$ 11,356	\$ 53,769
Additions:										
Unrestricted Revenue.....	1,352,524	1,275,568	1,189,745	1,136,030	1,142,899	1,033,447	1,023,501	960,530	873,749	795,996
(1)Unrestricted Revenue - UCP.....	39,062	35,143	16,594	16,263	12,966	12,915	15,839	12,500	23,704	22,810
Total Unrestricted Revenue.....	1,391,586	1,310,711	1,206,339	1,152,293	1,155,865	1,046,362	1,039,340	973,030	897,453	818,806
Transfer from Other Funds.....	8,709	9,161	517	3,358	1,787	778	2,334	1,051	1,062	3,374
Bonds Authorized and Unissued.....	42,800			5,130			(7,337)			
Additional Lottery Transfer.....							8,579			
Other Credits.....	1,126	821	35	247	48	214	7,541	5,348	51	436
Total Additions.....	1,444,221	1,320,693	1,206,891	1,161,028	1,157,700	1,047,354	1,050,457	979,429	898,566	822,616
Deductions:										
Appropriations Net of Estimated Revenues:										
General Government.....	303,522	248,390	233,118	228,190	227,278	226,440	203,368	185,447	185,695	175,145
Administration of Justice and Public Protection.....	172,289	168,515	163,516	161,406	154,450	149,503	136,298	128,992	109,324	107,573
Resource Protection and Development.....	41,454	41,673	41,161	41,511	38,764	37,753	38,483	37,238	35,071	40,256
Transportation.....	2,885	2,759	3,286	3,399	2,920	3,034	2,882	2,935	2,845	2,886
Health and Social Services.....	608,735	589,392	516,550	498,534	242,393	242,442	218,549	212,160	205,796	203,716
Education.....	256,466	247,543	265,552	242,657	175,520	166,644	156,335	154,785	124,941	119,970
Liquor Commission.....	27,562	28,879	24,943	25,035	22,860	23,417	22,550	22,119	20,443	20,774
(2)Special Fund.....					238,823	231,867	205,086	197,903	195,957	195,011
Subtotal.....	1,412,913	1,327,151	1,248,126	1,200,732	1,103,008	1,081,100	983,551	941,579	880,072	865,331
Uncompensated Care Pool.....	39,062	35,143	16,594	16,263	12,966	12,915	15,839	12,500	23,704	22,810
Health Care Transition Fund (HCTF)...								14,786	6,500	7,912
Total Appropriations Net of Estimated Revenues.....	1,451,975	1,362,294	1,264,720	1,216,995	1,115,974	1,094,015	999,390	968,865	910,276	896,053
Less: Lapses.....	(57,969)	(57,491)	(20,650)	(26,179)	(33,010)	(22,913)	(42,794)	(24,105)	(25,493)	(25,973)
Lapses - HCTF.....					(95)	(342)	(485)		(6,415)	(790)
Total Lapses.....	(57,969)	(57,491)	(20,650)	(26,179)	(33,105)	(23,255)	(43,279)	(24,105)	(31,908)	(26,763)
Net Appropriations.....	1,394,006	1,304,803	1,244,070	1,190,816	1,082,869	1,070,760	956,111	944,760	878,368	869,290
Transfers to Other Funds.....	757					65	872	280	398	595
Other Debits.....										
Other Debits.....	41	37			105	1,037	2,704	865	1,823	2,266
Transfer to (from) Fund Equity										
Designation or Reserve Accounts.....	-	(37,857)	(33,917)	83,252	827	32,526	102,653	(55,205)	(13,305)	(7,122)
Total Deductions.....	1,394,804	1,266,983	1,210,153	1,274,068	1,083,801	1,104,388	1,062,340	890,700	867,284	865,029
Balance, June 30 (Budgetary Method).....	123,174	73,757	20,047	23,309	136,349	62,450	119,484	131,367	42,638	11,356
GAAP Adjustments:										
Receivables.....	34,313	32,722	29,676	26,254	4,121	2,845	4,827	1,520	2,764	3,414
Accounts Payable and Accrued Liabilities.....	(93,773)	(94,872)	(88,271)	(67,704)	(44,552)	(48,721)	(62,191)	(58,082)	(53,199)	(58,669)
Transfer from General to Liquor Fund.....	(4,012)	(4,191)	(4,324)	(3,148)	(2,738)	(2,686)	(3,628)	(3,677)	(3,180)	(2,942)
Transfer from General to Special Fund.....					(9,833)	(9,889)	(27,488)	(26,127)	(29,207)	(10,531)
Elimination Bonds Authorized.....										
Additional Transfers (to) from Reserve Accounts.....			37,857		(83,347)		(31,004)	(3,602)	38,960	13,221
Total GAAP Adjustments.....	(63,472)	(66,341)	(25,062)	(44,598)	(136,349)	(58,451)	(119,484)	(89,968)	(43,862)	(55,507)
Year-End Transfer to Education to cover.. Advances (Negative Cash Balance)...	22,500	7,871	5,015	(16,580)						
Balance (Deficit), June 30 (GAAP).....	\$ 82,202	\$ 15,287	\$	\$ (37,869)	\$	\$ 3,999	\$	\$ 41,399	\$ (1,224)	\$ (44,151)

(1) UCP = Uncompensated Care Pool

(2) In fiscal year 2002, the special fund, which was used to capture federal grants and state match, was combined with the general fund.

**TABLE OF UNDESIGNATED FUND BALANCE
HIGHWAY FUND
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands)**

	Fiscal Year Ended June 30									
	2,005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Balance (Deficit) July 1 (Budgetary Method)....	\$ 3,063	\$ (4,271)	\$ 6,227	\$(18,274)	\$ (7,346)	\$ 1,454	\$ 7,439	\$ 11,001	\$ (2,903)	\$ 8,299
Additions:										
Unrestricted Revenue:										
Gasoline Tax.....	131,975	129,863	124,221	121,665	119,507	116,050	119,863	115,517	111,001	107,025
Motor Vehicle Fees.....	93,190	89,934	87,725	83,715	72,066	69,882	66,320	64,452	62,449	60,174
Other.....	7,418	6,270	4,737	6,343	8,872	8,344	10,544	9,263	10,090	10,709
Total Unrestricted Revenue.....	232,583	226,067	216,683	211,723	200,445	194,276	196,727	189,232	183,540	177,908
Bonds Authorized and Unissued.....										
Other Credits *.....				19,436		1,202		767	43	
Total Additions.....	232,583	226,067	216,683	231,159	200,445	195,478	196,727	189,999	183,583	177,908
Deductions:										
Appropriations Net of Estimated Revenues.....	253,894	235,021	238,453	229,962	222,593	214,021	211,816	200,378	175,814	193,270
Less: Appropriation Adjustment ***.....	(26,600)									
Less: Lapses **.....	(12,307)	(16,677)	(13,133)	(23,149)	(14,064)	(24,607)	(16,656)	(8,322)	(7,717)	(6,534)
Net Appropriations.....	214,987	218,344	225,320	206,813	208,529	189,414	195,160	192,056	168,097	186,736
Bonds Authorized and Unissued.....					-	13,309	5,736			
Other Debits.....	1,867	389	1,861	(155)	2,844	1,555	1,816	1,505	1,582	2,374
Total Deductions.....	216,854	218,733	227,181	206,658	211,373	204,278	202,712	193,561	169,679	189,110
Balance, June 30 (Budgetary Method).....	18,792	3,063	(4,271)	6,227	(18,274)	(7,346)	1,454	7,439	11,001	(2,903)
GAAP Adjustment:										
Receivables.....	1,413	119	1,511	360	271	1,596	269	404	934	317
Accounts Payable and Accrued Liabilities.....	(13,231)	(12,644)	(9,851)	(10,696)	(8,414)	(9,956)	(9,131)	(9,735)	(9,803)	(8,567)
Bonds Authorized and Unissued.....							(13,309)	(19,045)	(19,045)	(19,109)
Total GAAP Adjustments.....	(11,818)	(12,525)	(8,340)	(10,336)	(8,143)	(8,360)	(22,171)	(28,376)	(27,914)	(27,359)
Reclassification of Designated Balance.....										39,732
Balance (Deficit), June 30 (GAAP).....	\$ 6,974	\$ (9,462)	\$(12,611)	\$ (4,109)	\$(26,417)	\$(15,706)	\$(20,717)	\$(20,937)	\$(16,913)	\$ 9,470

* FY 2002 - Other Credits of \$19,436 represents local revenue in excess of estimates accumulated over several years.

** FY 2002 Lapse increases by \$6.3 million for close out of Federal Funds and related state match.

***FY 2005 Adjustment in accordance with Ch 176:9,II,L'05 where net appropriations for the Consolidated Federal Account is reduced and transferred to Undesignated Surplus.

TABLE OF UNDESIGNATED FUND BALANCE
FISH AND GAME FUND
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands)

	Fiscal Year Ended June 30									
	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Balance, July 1 (Budgetary Method).....	\$ 3,763	\$ 3,616	\$ 3,324	\$ 3,599	\$ 4,277	\$ 5,464	\$ 5,006	\$ 4,310	\$ 4,068	\$ 4,539
Additions:										
Unrestricted Revenue.....	9,530	9,164	8,924	8,374	8,230	7,928	8,158	7,923	7,397	6,769
Other Credits.....	1,153	507	939	806	811	878	742	847	791	871
Total Additions.....	10,683	9,671	9,863	9,180	9,041	8,806	8,900	8,770	8,188	7,640
Deductions:										
Appropriations Net of Estimated Revenues.....	11,236	10,651	10,593	10,545	10,238	10,419	8,809	8,350	8,311	8,413
Less: Lapses.....	(1,126)	(1,127)	(1,024)	(1,131)	(667)	(426)	(479)	(276)	(385)	(302)
Net Appropriations.....	10,110	9,524	9,569	9,414	9,571	9,993	8,330	8,074	7,926	8,111
Other Debits.....			2	41	148	0	112	0	20	0
Total Deductions.....	10,110	9,524	9,571	9,455	9,719	9,993	8,442	8,074	7,946	8,111
Current Year Balance.....	573	147	292	(275)	(678)	(1,187)	458	696	242	(471)
Balance, June 30 (Budgetary Method).	4,336	3,763	3,616	3,324	3,599	4,277	5,464	5,006	4,310	4,068
GAAP Adjustment:										
Receivables.....	421	289	229	299	152	160	438	211	128	124
Accounts Payable and Accrued Liabilities.....	(1,701)	(1,279)	(1,216)	(1,027)	(1,036)	(1,178)	(1,238)	(1,325)	(1,182)	(1,120)
Total GAAP Adjustments.....	(1,280)	(990)	(987)	(728)	(884)	(1,018)	(800)	(1,114)	(1,054)	(996)
Balance, June 30 (GAAP).....	\$ 3,056	\$ 2,773	\$ 2,629	\$ 2,596	\$ 2,715	\$ 3,259	\$ 4,664	\$ 3,892	\$ 3,256	\$ 3,072

SCHEDULE OF REVENUE BOND COVERAGE RATIO
TURNPIKE SYSTEM REVENUE BONDS
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands)

Fiscal Year	Gross Revenues*	Direct Operating Expenses*	Net Revenue Available For Debt Service	Debt Service Requirements			Coverage Ratio
				Principal	Interest	Total	
2005	68,318	30,041	38,277	11,385	15,612	26,997	1.42
2004	66,463	26,568	39,895	8,300	15,565	23,865	1.67
2003	67,086	24,505	42,581	7,765	16,984	24,749	1.72
2002	66,218	23,877	42,341	9,415	17,037	26,452	1.60
2001	63,981	21,352	42,629	6,785	18,567	25,352	1.68
2000	63,034	22,064	40,970	6,645	19,807	26,452	1.55
1999	59,257	18,794	40,463	5,817	16,469	22,286	1.82
1998	58,033	16,352	41,681	6,063	15,615	21,678	1.92
1997	55,714	17,231	38,483	5,653	15,944	21,597	1.78
1996	53,231	17,024	36,207	5,348	16,247	21,595	1.68

* - Amounts as defined in Turnpike System Bond Resolutions.

**RATIO OF GENERAL LONG-TERM DEBT TO ASSESSED VALUE
AND GENERAL LONG-TERM DEBT PER CAPITA
FOR THE LAST TEN FISCAL YEARS**

(Expressed in Thousands)						
Fiscal Year	(1)		(2)		(3)	
	Population		Assessed Value	General Long-Term Debt	Ratio Of General Long-Term Debt To Assessed Value	General Long-Term Debt Per Capita
2005	1,317	\$	151,908,123	\$ 700,986	0.46	\$ 532
2004	1,300		147,483,615	648,492	0.44	499
2003	1,288		131,148,359	629,461	0.48	489
2002	1,275		114,813,249	682,389	0.59	535
2001	1,259		99,073,654	628,406	0.63	499
2000	1,236		86,703,541	592,110	0.68	479
1999	1,201		76,154,469	645,907	0.85	538
1998	1,186		70,239,891	617,525	0.88	521
1997	1,173		65,331,719	661,353	1.01	564
1996	1,161		62,883,249	663,286	1.05	571

Sources: (1) U.S. Dept. of Commerce, Bureau of the Census, reflects the most current available data for all years represented (2005 estimated).
 (2) New Hampshire Department of Revenue Administration (2005 estimated). Equalized evaluation.
 (3) Includes all General Obligation Bonds Payable of the Primary Government.

**DEMOGRAPHIC STATISTICS
FOR THE LAST TEN FISCAL YEARS**

Year	(1)	(2)	(3)
	Population	Per Capita Income	Unemployment Rate
2005	1,317,000	\$ 37,612	3.5%
2004	1,300,000	36,148	3.9
2003	1,288,888	34,702	4.1
2002	1,275,000	34,276	4.5
2001	1,259,000	35,086	2.9
2000	1,236,000	33,332	2.8
1999	1,201,000	31,325	2.6
1998	1,186,000	29,596	2.7
1997	1,173,000	27,613	3.2
1996	1,161,000	26,042	4.4

Sources: (1) U.S. Dept. of Commerce, Bureau of the Census, reflects the most current available data for all years represented (2005 estimated).
 (2) U.S. Dept. of Commerce, Bureau of Economic Analysis, reflects the most current available data for all years represented (2005 estimated).
 (3) New Hampshire Department of Employment Security, Economic and Labor Market Information Bureau.

NUMBER OF BUILDING PERMITS FOR HOUSING UNITS FOR THE LAST TEN CALENDAR YEARS

Building Permits Issued By Number of Units

<u>Fiscal Year</u>	<u>Single Family</u>	<u>Multi- Family</u>	<u>Total</u>
2005	6,283	1,391	7,674
2004	6,618	2,086	8,704
2003	6,043	1,729	7,772
2002	6,383	1,539	7,922
2001	5,608	543	6,151
2000	6,097	583	6,680
1999	5,696	630	6,326
1998	5,310	461	5,771
1997	4,598	806	5,404
1996	4,233	693	4,926

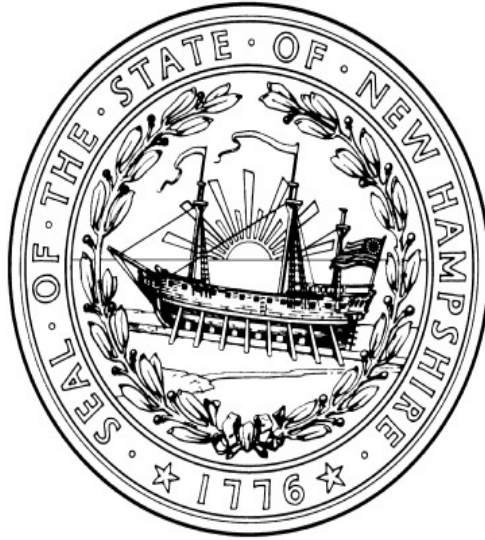
Source: U.S. Department of Commerce, Bureau of the Census.
Data is annualized based on activity through December 2005

Largest Employers (Excluding Federal, State and Local Governments)

<u>Company</u>	<u>Employees</u>	<u>Primary New Hampshire Site</u>	<u>Principle Product</u>
1. Wal-Mart Stores Inc.....	8,662	Multiple	Retail Department Store
2. Dartmouth Hitchcock Medical Center.....	7,100	Hanover	Acute Care Hospital
3. Demoulas & Market Basket.....	6,600	Multiple	Supermarkets
4. Shaw's Supermarkets Inc.....	4,600	Multiple	Supermarkets
5. Liberty Mutual.....	4,487	Multiple	Financial Services
6. Fidelity Investments.....	4,273	Merrimack	Financial Services
7. Dartmouth College.....	4,074	Hanover	Private College
8. Elliot Hospital.....	3,875	Manchester	Acute Care Hospital
9. Hannaford Brothers-Shop & Save.....	3,200	Multiple	Supermarkets
10. Home Depot.....	2,500	Manchester	Hardware Products
11. Concord Hospital.....	2,320	Concord	Hospital
12. Southern New Hampshire Medical Center...	1,800	Nashua	Acute Care Hospital
13. Verizon Communications.....	1,750	Multiple	Telecommunications
14. Catholic Medical Center.....	1,700	Manchester	Acute Care Hospital
15. Sears at Fox Run Mall.....	1,626	Newington	Home and Automotive Products
16. N.H. International Speedway.....	1,500	Loudon	Motor Sports Facility
17. St. Joseph Hospital.....	1,500	Nashua	Acute Care Hospital
18. Wentworth-Douglas Hospital.....	1,361	Dover	Acute Care Hospital
19. United Parcel Service.....	1,311	Hudson	Small Package Transportation
20. Public Service of New Hampshire.....	1,250	Manchester	Electric Utility

Source: *New Hampshire Business Review/Book of Lists 2005*

STATE OF NEW HAMPSHIRE
ACKNOWLEDGEMENTS



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